BUSINESS WEEK

September 23, 1961
Fifty cents
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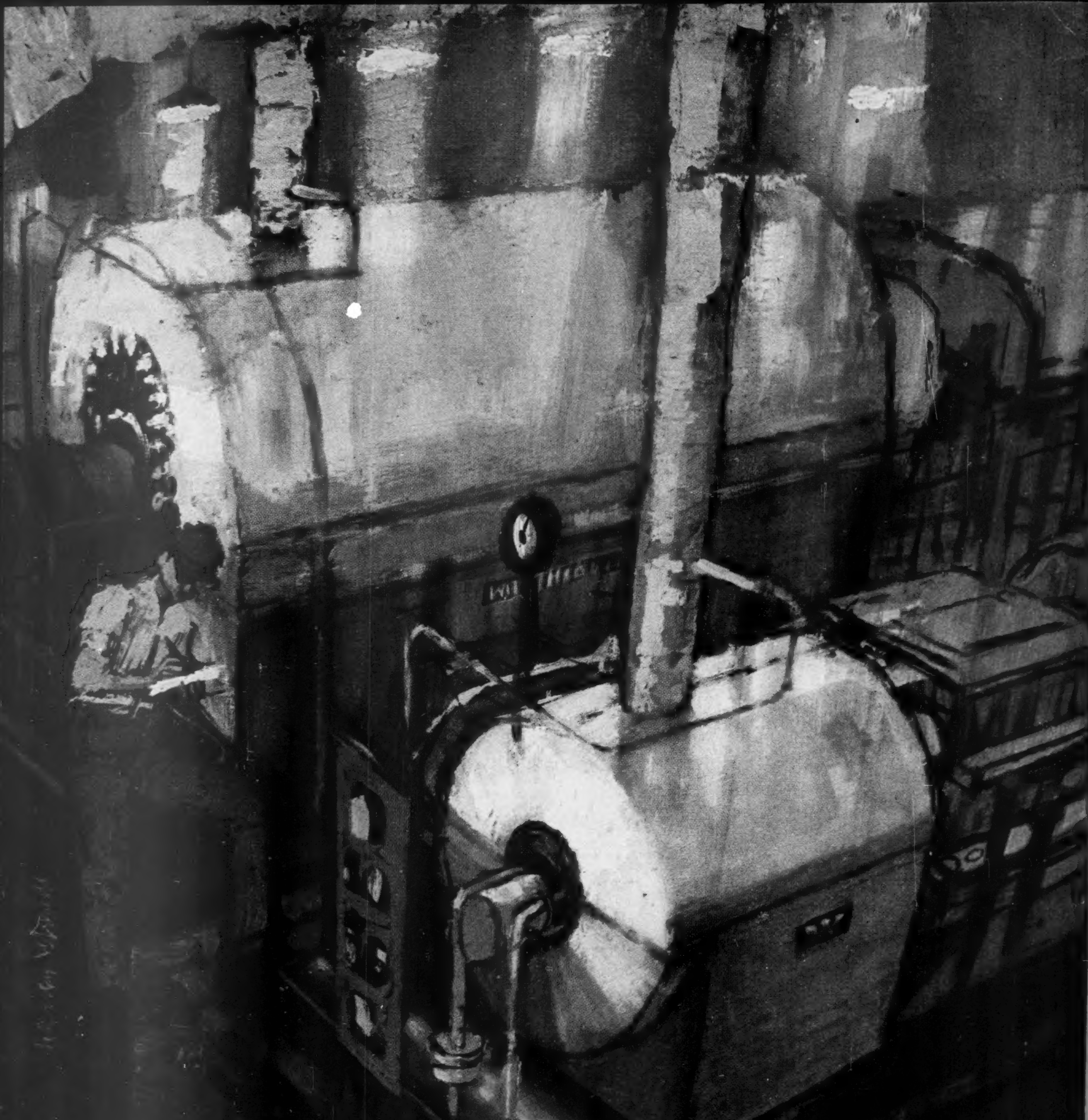
Shorter work week: a dead issue now

Page 111

Computer software

A world of
business shortcuts,
new languages,
new techniques on tape

[Production]



In BUSINESS this WEEK

September 23, 1961

General business

BW

The departments

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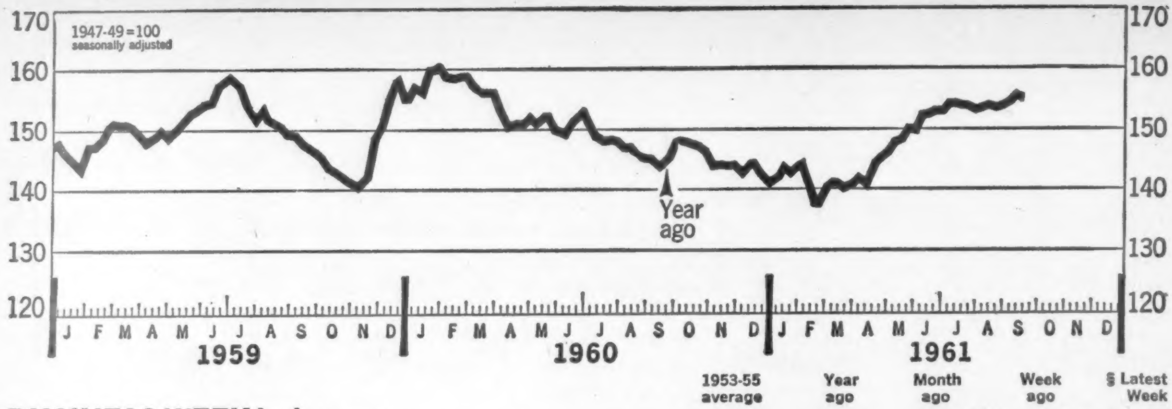
Number 1673

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	**133.3**	**145.8**	**154.0**	**156.1r**	**155.7***
Production					
Steel ingot [thous. of tons]	2,032	1,510	1,944	2,032r	2,032
Automobiles	125,553	85,879	16,948	83,421r	63,516
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$79,260	$75,745	$65,989	$69,298
Electric power [millions of kilowatt-hours]	10,819	14,298	15,665	15,838	15,869
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,847	7,073	7,162	7,111
Bituminous coal [daily av., thous. of tons]	1,455	1,341	1,370	1,381r	1,424
Paperboard [tons]	247,488	320,971	327,549	261,790	347,649
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	53	53	57	55
Carloadings: all others [daily av., thous. of cars]	47	43	45	43	43
Department store sales index [1947-49=100, not seasonally adjusted]	121	130	131	154	129
Business failures [Dun & Bradstreet, number]	198	305	366	275	292
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	90.3	92.1	92.4	91.7
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	74.8	75.9	75.4	75.1
Print cloth [spot and nearby, yd.]	19.8¢	19.0¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.6	185.6	185.6
Scrap steel composite [Iron Age, ton]	$36.10	$31.83	$37.83	$39.50	$39.50
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	33.000¢	31.000¢	31.015¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc [U. S. del., E&MJ, lb.]	††	24.00¢	N.A.	N.A.	N.A.
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$1.98	$2.09	$2.01	$2.09
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.53¢	33.15¢	33.28¢	33.37¢
Wool tops [Boston, lb.]	$1.96	$1.65	$1.78	$1.83	$1.81
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	54.58	68.25	67.90	67.21
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.02%	5.11%	5.12%	5.12%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3½%	3%	3⅛%	3⅛%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	60,655	61,017	61,791	63,341
Total loans and investments, reporting member banks	††	106,865	144,555	114,270	115,106
Commercial, industrial and agricultural loans, reporting member banks	††	32,566	32,693	32,664	32,862
U. S. gov't guaranteed obligations held, reporting member banks	††	27,855	33,017	33,321	33,171
Total federal reserve credit outstanding	26,424	28,048	28,676	28,931	29,052
Gold stock	21,879	18,879	17,602	17,451	17,451

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Housing starts [in thousands]	August	101.5	135.1	127.9	129.2
Personal income [seasonally adjusted, in billions]	August	$296.1	$405.2	$421.2	$419.3
Farm income [seasonally adusted, in billions]	August	$16.0	$16.5	$17.2	$17.3
Bank debits [in billions]	August	$158.1	$241.8	$247.7	$255.5
Wholesale prices [U. S. Dept. of Labor BLS, 1947-49=100]	August	110.4	119.2	118.6	119.0

* Preliminary, week ended September 16, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.
NA Not available at press time.

The Pictures: Cover, Ed Malsberg; 25, Herb Kratovil; 26, United Nations; 27, UPI; 29, UPI; 30, 31, Ron Appelbe; 33, WW; 47, Black Star; 61, Houston Chronicle; 80, 81, 82, Bill Diehl, Jr.; 87, 88, Leonard Nadel; 90, 91, Scott Dine; 94, Continental Airlines; 99, (lt.) Sherman Sable, (rt.) Robert W. Johnston; 104, 105, Tom O'Reilly; 111, Amalgamated Meat Cutters; 118, UPI; 131, 132, Carl Turk; 136, Jay Leviton; 140, Ed Nano; 145, 146, Ed Malsberg; 155, (top) Cameramen Inc., (lt.) Herb Kratovil, (rt.) Tibor Hirsch; 162, 163, 164, Herb Kratovil; 177, (top) Western Reserve University, (bot.) Edward Howard & Co.; 182, 183, Tom O'Reilly; 186, Puerto Rico Economic Development Administration.

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READERS REPORT

UAW loss-sharing plan?

Dear Sir:

In your article entitled "Profit-sharing plan is victory for UAW" [BW Sep.2'61,p37], it is clearly apparent that the UAW is overjoyed in having achieved such a great victory, much to the disadvantage of the stockholders.

I believe that it would be a novel idea if Chrysler were to offer the UAW a loss-sharing plan, which would consist of the union members paying a percentage of their wages back to the company whenever there is a deficit rather than a profit. It would be interesting to see if the UAW is as willing to assume the risk of loss as well as the anticipation of profits. . . .

D. L. Bicknell
Kansas State College
Pittsburg, Kan.

For Sunday selling

Dear Sir:

Mr. Raymond J. Laird of Forest Hills, N. Y., whose letter "Against Sunday Selling" appeared in your magazine [BW Aug.26'61,p5], apparently has fallen into the trap that confuses so many on this issue.

In quoting the Commandment "Remember that thou keep holy the Sabbath day," he has failed to consider that the word "Sabbath" merely means "seventh." The Bible does not say that any specific day of the week is the Sabbath. . . .

Let's have an end to this silliness about Sunday selling.

(Rev.) William C. Faust
Electric Storage Battery Co.
Philadelphia, Pa.

Hired and happy

Dear Sir:

We were quite interested to read your cover story on Katharine Gibbs girls [BW Sep.2'61,p42], since we have three Gibbs graduates in this office including my secretary and the assistant manager's secretary.

Gibbs girls certainly are capable young ladies, and we only hope we can employ more of them in the future.

Kenneth R. Rearwin
Vice-President
Merrill Lynch, Pierce, Fenner & Smith
San Francisco, Calif.

Do branch operations have you on a limb?

If the cost of meeting changes in regional demand is your problem, now is the time to use American Airlines AIRfreight.

American AIRfreight gives you mobility to best coordinate central production with regional sales surges. More than 800 daily flights can put you on the spot with the goods as fast as same day or morning after receipt of order. No need now to tie up capital in unwieldy branch safety stocks, extensive overhead.

One shipper, Art-Craft Optical Co., started using American AIRfreight to distribute eyeglass frames to district offices throughout the nation. Result: faster customer service contributed to a rise in sales. Branch inventory and goods in the pipeline were cut 50%. They are now making substantial dollar savings annually. Maybe American can do the same for you.

Consider AIRfreight—every profit-building aspect. And remember, more shippers move more freight on American than on any other airline in America. *Ship with the professionals*—call American AIRfreight.

AMERICAN AIRLINES

America's Leading Cargo Airline

Business outlook

BW

September 23, 1961

Value of output at new high in third quarter

Total business activity apparently has been progressing about as expected.

When you include services as well as goods produced, the Dept. of Commerce figures third-quarter turnover at an annual rate of $526-billion. That's an advance of just over 5% in gross national product from the recession low (with a small fraction traceable to prices) and is close indeed to the curve projected earlier by Business Week [BW Sep.9'61,p28].

The product mix, admittedly, may not be all that every manufacturer might ask; it appears that **services once again are taking a lion's share of the gains.** But goods are doing well enough—and will do better.

Physical volume is 12% above 1957 average

Physical volume of goods production for the third quarter looks, off the July-August figures, to have run above 112 in the Federal Reserve Board's index (that is to say, more than 12% above the 1957 average).

August is estimated, on the basis of preliminary figures, to have been just a shade below 113 on a seasonally adjusted basis. And, even though labor troubles in autos have prevented car production and steel demand from coming up to expectations, September should do about as well.

Production of goods for consumers has flattened out, mainly under the influence of automobiles. Output of new cars, by dint of the adjustment for normal seasonal trends, was about unchanged from June through August.

The main production gains recently have been in two broad categories: (1) softgoods, which include industrial necessities such as chemicals and oil as well as nondurables for consumers, and **(2) equipment,** which includes defense as well as producers' goods and commercial equipment.

Softgoods have hit new highs in each of the last three months, and equipment finally nosed into new high ground in August.

Production of materials—which should sustain higher levels of over-all manufacturing at a later date—is very high. That is to say, it just about matches the boom rate of January, 1960, when industry was buying hand-over-fist to replenish stocks after the steel strike.

But, with steel running at a much lower rate now than at the start of 1960, demand for materials is much more broadly spread.

Steel production just holds its own

About the best that can be said for steel production is that it has held up extremely well considering the auto situation.

The output rate has varied hardly at all so far this month.

Nevertheless, current operations are high enough so that September (with its 30 days) should wind up with 8.7-million tons. That would be 40,000 tons better than August (with 31 operating days) and would leave September second only to June's peak for the recovery to date.

Steel production for the third quarter will come to 25.4-million tons or a little better (highest since the second quarter of 1960 when roundly 26-million tons were poured).

Autos far below September goal

Auto production no longer has a chance of coming anywhere near the 500,000 originally projected (somewhat optimistically) for this month.

Even should it be possible to push the operating rate up very sharply

toward the end of this month, anything better than 350,000 cars will be very good—and even that seems like it would take a lot of doing.

In the first week of the month (the week shortened by Labor Day) the industry turned out nearly 84,000 cars; the following week, with General Motors pinched back almost to nothing, only 62,000 were turned out.

Gains in income now coming at slower rate

August produced the smallest gain in personal income since the recovery began pushing up the totals back in March.

In fact, unless you deduct July's one-shot payment on veterans' life insurance (multiplied by 12 to put it at an annual rate), August was down by nearly $2-billion.

Barring the life insurance dividend, the August rate of $419.3-billion represented a rise from the previous month of $700-million.

At this level, income was running at an annual rate $16-billion higher than the recession low and $14-billion better than the like 1960 month. **And the slowing down in the rate of gain this summer readily can be explained by the combination of dog days and auto's early changeover.**

Failure of pay envelopes to grow very much during July and August characterized commodity producing industries, particularly manufacturing.

In these lines there actually was a small decline in August (without any statistical mumbo jumbo). The decline is so small, of course, that it may be removed on revision of the figures—or it might be an error in estimation. Even taking such a hopeful view, however, fails to erase the fact that **incomes of this important group of spenders stopped rising, however temporarily, during the summer.**

New orders for durable goods at recovery high

Spotlighting the near certainty of better things for employment and payrolls and purchasing power is the continuing rise in demand on factories turning out durable goods.

In each month since January, the volume of new orders booked by these plants in the aggregate has risen (seasonally adjusted). Not only that, but in each of those months new orders exceeded the value of goods shipped. And they are the highest since just before the 1959 steel strike.

This hasn't restored the whole of the dent put in order backlogs, but it has gone a good way toward it; manufacturers of durables now have $44-billion of unfilled orders, up nearly $2¼-billion from the low point.

Value of durable goods shipped by manufacturers, though it can't keep pace with the volume of orders, continues in a steep rise.

Last month's total of $14.9-billion (seasonally adjusted) compares with the January low of $13.2-billion. And August volume—though it may not have seemed a very exciting month—was the best in 14 months.

Homebuilding off for second month

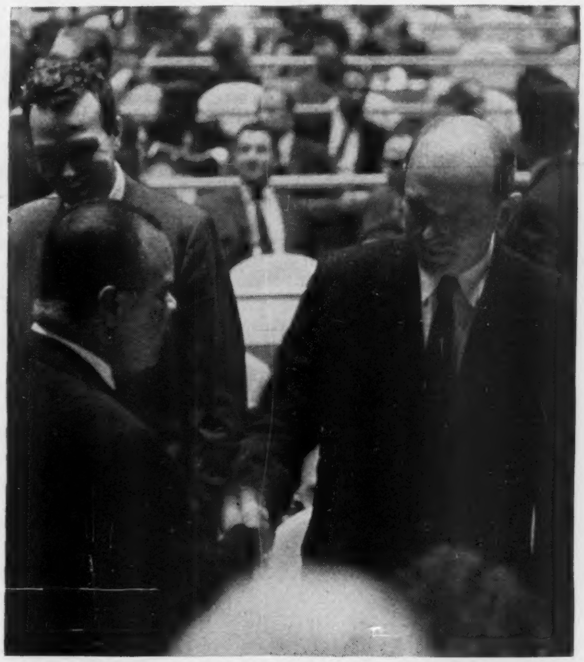
Homebuilding just can't seem to accomplish much in the way of giving the business upturn a helping hand. Each time there is a little spurt in the number of new homes started, the curve turns down again.

The seasonally adjusted annual rate of 1,381,000 for June still stands as the high for the year to date.

In July, there came the slip to a rate of 1,338,000. That might have been written off as a one-month interruption, but such an explanation won't do for here comes August with an estimated 1,317,000.

BW September 23, 1961
Number 1673

BUSINESS WEEK



U. S. Secy. of State Dean Rusk came to floor of the U. N. to try to retrieve something from a fast worsening situation.

Soviet Foreign Minister Andrei Gromyko came, too, for U. N. session, ready to press Russia's latest advantage.

World crisis deepens

Death of Hammarskjold throws the future of the U.N. in doubt as West German elections and Allied disagreements over tactics give Russia more strength in the Berlin showdown

Washington is reeling this week under the impact of world events. With the U. N. crisis piling up on top of the already grave Berlin situation and the accelerating arms race, it begins to look as if the U. S. were caught up in something close to a general world crisis.

The tragic death of Secy. Gen. Dag Hammarskjold has plunged the U. N. into a constitutional jam that calls into question the whole future of the world organization and the influence of the West within it. And this has happened just when its troops are desperately engaged in the Congo—putting at stake not only the prestige of the U. N. but remaining hopes for peace and stability in Central Africa.

Time bomb. Moscow's Berlin time bomb ticks on meanwhile, none the less dangerous for being temporarily overshadowed by Hammarskjold's death. At midweek Secy. of State Rusk was in New York trying both to deal with the U. N. and to learn from Soviet Foreign Minister Andrei Gromyko whether there is any basis for negotiations with Premier Khrushchev on Berlin.

However, Rusk meets Gromyko against a background of scarcely veiled Western disagreement over the tactics to be followed in Berlin. And almost simultaneously, Paul-Henri Spaak, former secretary general of NATO and now Belgian Foreign Minister, has suggested possible compromises to Khrushchev in Moscow—a move that some allied diplomats believe is sure to be interpreted by the Soviet leader as a sign of Western weakness.

West Germany's voters, too, have injected a new element of uncertainty into the Berlin crisis, and into East-West relations in Europe, by denying to aging Chancellor Konrad Adenauer's party the unquestioned

Death of Dag Hammarskjold (above as he was greeted earlier by Congo Premier Adoula) plunged U. N. into crisis.

supremacy that it enjoyed for so long (page 47). At the same time, the Communists are putting new pressure on South Vietnam and increasing their efforts to topple the pro-Western government of Iran.

I. Gloomy outlook

Faced with this welter of immediate and longer-range crises, officials in the White House, the State Dept., and the Pentagon were not bold enough this week to try to forecast with any precision the outcome of the political chain reactions now under way. But the consensus adds up to a pretty gloomy outlook for the U. S. and the West:

- **In the U. N.,** no matter how the constitutional crisis works out, Western influence is bound to be weakened and the world body's power to keep the peace hobbled (page 27). A "neutralist" Asian or African is almost certain to succeed to the post of Secretary General—if in fact it proves possible to agree on any successor.

The powers of the office, too, are likely to be limited under combined Soviet and neutralist pressure. This era of easy Western dominance of the U. N.—already waning—came to a crashing end along with Hammarskjold in the Rhodesian bush.

- **In the Congo,** the U. N. attempt to reunite by force secessionist Katanga with the rest of the country is wavering badly. Reports flooded in at midweek of U. N. detachments overwhelmed, of other detachments held hostage, still others heavily besieged, and of spreading disaffection among U. N. soldiers uncertain of what they were fighting for.

Whether the headless U. N. would be able to get a cease-fire with Katanga's President, Moise Tshombe, was an open question. U. S. officials were sure of two things, though: If the U. N. failed in this effort and couldn't follow through to victory, its prestige would be shattered and its capacity to act in other crises virtually ended. The result in the Congo itself almost certainly would be civil war in which the pro-Communist forces led by Antoine Gizenga would have the best chance of victory.

- **In the Berlin crisis,** the West seems headed for a political defeat, unless there is war by miscalculation. The vulnerability of West Berlin, 100 miles inside Communist East Germany, is forcing the Western Allies to exhaust every possibility of negotiation. But in any negotiations the Allies will be seeking at best to retain the mere right of presence in and access to Berlin.

Khrushchev will ask a stiff price if, in fact, he is willing to settle for anything less than complete Western capitulation. The minimum price—one that the Allies appear ready to pay—would be de facto recognition of East Germany, an end to Berlin's role as a cold war outpost, some degree of internationalization of West Berlin by stationing one or more international organizations there, and probably some controls on West German armaments.

- **In West Berlin,** the decline of Adenauer's power may weaken still further the already weak Allied hand in negotiations over Berlin. Beyond that, some U. S. officials fear that it may call into question the basic alignment of West Germany between East and West. If there is a coalition of the Christian Democrats and the Free Democrats, and Adenauer steps down in favor of Economics Minister Ludwig Erhard, the prospect is for significant shifts in the political balance in West Germany—shifts that are bound to affect the established structure of European and Atlantic relations.

II. Berlin strategy

At midweek, however, Washington was concentrating on the immediate problems of trying to shore up the U. N. and to open the way for negotiations on Berlin.

Behind Rusk's attempts this week to find out from Gromyko whether the Soviets are willing to agree to negotiations on Berlin lies this grim reasoning:

As things stand now, West Berlin is indefensible as a living city over the long haul. The three Western Allies probably could maintain their garrisons there and their military communications by force. But the Soviets and their East German puppets have it in their power to slowly and inexorably squeeze the life and heart out of the civilian city by engaging over a period of time in a series of harassments no one of which would appear to be grave enough to justify unleashing nuclear war.

The Allies, therefore, must try to negotiate a new basis for maintaining the freedom and viability of West Berlin and their own military presence, which is the ultimate guarantee of the city's freedom. To do so, they must be and are ready to pay a price that is sure to include some recognition of East Germany and the indefinite division of Europe.

France demurs. The British go along with this glum reasoning, and the Germans apparently are becoming at least resigned to it. The French still disagree. That was made clear again in last week's testy talks between Allied foreign ministers. De Gaulle insists that the status quo is the best deal the Allies can get and that hence there is nothing to negotiate about. Furthermore, he believes that even to seek negotiations under the Soviet threat of force will not only increase Khrushchev's confidence that the West is weak, but may well lead him to raise his demands.

Khrushchev's plans. There is no assurance, of course, that Khrushchev is willing even to agree to an acceptable basis for negotiations at this stage.

As the Rusk-Gromyko talks began, the Soviets still were insisting that the only thing to be negotiated was Western acceptance of their proposals to sign separate peace treaties with the two Germanies, and to turn West Berlin into a free city and end Allied occupation rights.

Unless and until Khrushchev relents on these terms and agrees to discuss Western proposals as well as his own, there will be no formal negotiations. But if he is willing to go that far, the U. S. and its allies are ready to agree to an East-West foreign ministers meeting in October or November, possibly followed by a summit meeting later.

Silent tribute to Dag Hammarskjold, whose vacant chair is on dais at left, brings U.N. delegates to their feet

Fate of U.N. hangs in balance

The accidental vacating of the Secretary General's post gives Russia a readymade opportunity to stir up the dissension that might well end the U.N.'s usefulness

The United Nations at midweek was engulfed in turmoil.

The death of Secy. Gen. Dag Hammarskjold not only saddened the delegates who gathered for the annual meeting of the General Assembly but also let loose powerful contending forces from the Communists, neutrals, and Western allies, each attempting to dominate the future course of the U. N.

These cross-currents threaten to turn the session into a combination of circus and cold war. Discord may be even more intense than in last year's meeting, attended by Soviet Premier Khrushchev and other heads of state [BW Oct.1'60,p25].

The outcome of the battle will go far toward determining:

- The fate of the U. N. as an instrument for preserving world order.
- The place of the U. N. within U. S. foreign policy.

Soviet windfall. The Russians, who began an all-out attack on the U. N. last year, came to New York again ready to push their assault. The vacancy in the Secretary General's office gives them a wide opening for their anti-U. N. campaign. As an Indian visitor to New York this week said, sadly, "Dag Hammarskjold's death is a God-given opportunity for the Russians to create more chaos in the U. N."

The neutrals, who now outnumber the West and the Communists in the General Assembly, have been pressing for a general reorganization of the Secretariat and the Security Council to give them influence proportionate to their numbers. Hammarskjold's passing will speed that movement.

The Western allies are maneuvering to retain their influence in the U. N. and to preserve it as an effective, if limited, tool of diplomacy.

Who holds the aces. In this struggle, the balance of power lies with the neutrals, since the West and the Communists line up on opposite sides in most important issues. If the unaligned nations are willing to resist Russian intimidation, the U. N. will continue to have some importance on the world scene. If they succumb to Communist pressure, it may remain in existence as a debating forum, but it will have little effect on international politics.

If this happens, the U. S. most

likely would rescind its commitment to the organization, removing the U. N.'s main support since its founding 16 years ago.

Filling a void. As the battle began this week, the task of filling Hammarskjold's post was added to an agenda already loaded with highly charged items on disarmament, colonialism, Communist China, and the Congo. These were set aside for the moment. Even before electing Mongi Slim, of Tunisia, president of this General Assembly, the delegates turned their attention to the question of the Secretary General's successor.

At midweek, there appeared to be three courses of action:

To name a new Secretary General according to procedure laid down in the U. N. Charter. This seems to be impossible. For a year, the Russians have been beating the drum for their "troika" proposal; now, with the office vacant, they can make a real issue of their plan. This would have a triumvirate of top officers—one each from the Communist, neutral, and Western nations—as the executive head of the Secretariat. All decisions would be taken by unanimous vote, thus giving Russia a veto at the Secretary General level. The Western allies and most neutrals find this unacceptable.

To work out an interim solution. There are several variations on this theme, some proposed by the West and others by the neutrals.

One neutralist proposal would put one man in charge of the U. N's Congo operations, which urgently need leadership, and leave the housekeeping details of the Secretariat to three Under Secretaries General: a Russian, an American, and an Indian. But this amounts to an entering wedge for a troika arrangement, so it would not be acceptable to the West.

Another proposal, which the U. S. backs, would have the General Assembly name an acting Secretary General, leaving the permanent appointment to the Security Council, which under the Charter has authority only to nominate. But the Russians will not agree to this, and many neutralists, consequently, decline to support this plan.

A third proposal, put forward by several Africans and Asians, is a compromise between the Western demand for a single Secretary General and the Russian insistence upon troika. At midweek, "troika with a driver" was being bandied about the halls of the U. N. It would have three undersecretaries as a cabinet, and an acting Secretary General with limited powers.

To accept a deadlock. There may be no choice about this if the Russians insist on having their troika and block all other solutions. At midweek, the Russian delegates maintained that they were adamant about troika. Some delegates, however, believed that this might be a bargaining tactic.

In any event, barring an extraordinary and unexpected agreement between the U. S. and Russia, a permanent Secretary General will probably not be named for a year, possibly longer. And if a deadlock continues as a result of the Russian demand for troika, the post of Secretary General may even have died with Hammarskjold.

Disarmament. Besides the question of Hammarskjold's successor, the issues of disarmament and of the whole package of membership and reorganization questions, including Communist China, will soon be in heated debate.

This week, the U. S. and the Soviet Union submitted to the General Assembly a communique in which they set forth aims for a future disarmament program. But they disagreed on how the disarmament talks would be carried out and on who would be included in them.

Chinese membership. On Communist China, the U. S. has agreed with its Western allies to abandon its opposition to discussion of the issue. The Russians and many neutrals are pressing for the seating of the Communist delegation this year. Until this controversy is settled, the Russians say, there can be no discussion of reorganizing the U.N.

Complicating this issue are the membership applications of Mauritania, a new African nation, and Outer Mongolia, a Communist satellite. The Nationalist Chinese vow that they will veto Outer Mongolia's bid in the Security Council, which passes on new members. In retaliation, the Russians say they will veto Mauritania. That would anger the Africans, but not against Russia. African delegates, in fact, threaten to vote to expel the Nationalist Chinese from the General Assembly and to seat the Communist delegation.

Because the question of Chinese representation in the U.N. is one of credentials, not of admission, the U. S. has no veto. The General Assembly will debate and decide whether the Nationalist or Communist delegation represents China, which as a nation is a member of the U.N. Only in the Security Council do the five permanent members—U. S., U.S.S.R., Britain, France, and China—have a veto.

Light on gas rates

New FPC head plumps for area pricing on natural gas, but leaves some details vague

New Chmn. Joseph C. Swidler of the Federal Power Commission (picture, right) neither wooed nor won the natural gas industry in his first major policy speech this week. But he did clear up some current confusion over the shape of gas regulation to come. And he probably left Houston—where he addressed the 17th national convention of the Independent Natural Gas Assn. of America—with more friends among gas men than when he arrived.

"I am greatly encouraged," said W. E. Mueller, president of Colorado Interstate Gas Co., and outgoing president of INGAA. "He's learned a great deal about the industry in the weeks he's been on the commission," said Chmn. R. L. Kidd of the Cities Service Petroleum Co., Bartlesville, Okla. "Forceful and forthright," said an investment analyst in the audience.

For area pricing. Swidler indicated clearly that he, at least, favored the area price concept of setting gas rates as opposed to the older individual company cost-of-service method. But he did not provide much satisfaction as to just how production costs might figure in determining an area price.

Nor could Swidler be definite as to when area prices will be established widely enough to judge their effects on the industry's rate of return. There was also some question whether the commission would continue pursuing the thousands of individual rate cases on its docket, or lump them into area price proceedings as these are expanded.

Area pricing was announced by former FPC Chmn. Jerome K. Kuykendall (still an FPC member) at last year's INGAA meeting, as a way

out of the bog of time-consuming individual rate cases. It had been on shaky ground for several weeks, however, since FPC examiner Edward Marsh made little progress toward effecting it in recent South Louisiana hearings.

Swidler said that "area rates, if feasible, seem to be far preferable for producers and consumers alike . . . and should be pushed forward with all possible dispatch and vigor."

In the middle. Many gas men had been apprehensive about the new policies Swidler might suggest. Others had expected enlightenment in detail on how their problems were to be handled. The chairman's speech landed in the middle.

He promised that the commission would work hard to establish clear-cut policies and clear up the mammoth backlog of pending rates cases and facility construction applications—but he also called for more rapid and detailed cooperation on the part of the industry itself.

Incentives. Swidler saw several advantages in area pricing. Area rate proceedings, he said, "will probably prove to be the most important single tool for developing a sound framework of producer rate regulation."

A cost-of-service or cost-plus-fixed-rate-of-return yardstick would not, in his view, adequately compensate the risk a gas producer takes in finding reserves. On this point the gas industry could not be viewed as a conventional public utility. "I do not delude myself that simply recovering costs plus a 6% return on investment is a sufficient incentive," Swidler said.

Another advantage, in Swidler's view, would be that producers and owners of property would know before they started drilling what price their gas would bring, and consumers would know what they would have to pay. Area prices for natural gas would be somewhat similar to posted prices for production of crude oil in each area.

Prices and costs. Swidler also gave it as his opinion that area pricing would not affect existing contracts. For some, this raised the question of what the commission would do in cases where the area price does not leave producers a sufficient return on their present contracts.

But Swidler emphasized that area prices, to be effective, must be set as ceilings and not as floors.

Noting some recent arguments that any area rate decision must include a rêservation allowing "marginal, inefficient, or unlucky producers" to get a higher price by an

New FPC Chmn. Joseph C. Swidler gives preview of policies at Houston meeting of Independent Natural Gas Assn. He aims to speed cases, render opinions.

individual cost-of-service showing, Swidler said: "It seems to me that such a position would make the area pricing approach meaningless." The point of fixing area prices based on areawide costs and conditions, he said, is to "allow the individual company that is more efficient to reap the benefits of its efficiency."

As the new commission works to determine area prices, Swidler promised that it will lean harder on over-all cost evidence: "Area rates cannot be promulgated without a knowledge of at least the over-all cost of producing gas within the area . . . we should have a reasonably complete idea of your costs." An expanded questionnaire on costs has been sent to major parties in current area price hearings, and a shorter one is being worked out for smaller producers.

Speeding up. Swidler also made these points, in his speech or in discussions elsewhere:

- He favors taking smaller producers out of regulation—he thinks that the FPC has this authority, and that it is attempting to fix on a dividing line.
- He outlined steps the commission hopes to take to speed up the backlog of cases. These steps include possibly requiring companies to file a fully prepared case at the outset, streamlining field investigations, pooling efforts by intervenors with common interests, getting more personnel, and setting cases for prompt hearing. This would give a "fighting chance" of deciding cases within the five-month period during which rate increases asked for are suspended.
- He hopes FPC can write its opinions in such a way that underlying policies can readily be identified, and it will not be necessary to bring up again a question already decided. But being realistic, he added, "I will say that I do not expect a decline in natural gas litigation of such magnitude as to decimate the bar."

Swidler expressed the view that no additional legislation is needed to enable the FPC to carry out the policies it has in mind.

U. S. Treasury team of Robert Roosa and Douglas Dillon marshaled support for plan to boost IMF resources.

U. K.'s Selwyn Lloyd (below), who has made large borrowing from IMF, backed protection of pound and dollar.

French delegation, led by Finance Minister Wilfred Baumgartner (right), fought automatic extension of IMF credits, wanted deficit nations to take corrective steps on their own.

Designing a buffer for money panics

Delegates at international conference agree to support scheme to bolster IMF reserves with standby credits to help withstand pressures on free world's key currencies

Per Jacobsson, IMF head, fathered compromise proposal to provide standby credits to moderate currency runs.

Moment of relaxation for delegates at IMF annual meeting was provided by reception in Vienna's Belvedere Castle.

Finance ministers and central bankers of the free world this week took their first steps toward enlarging the resources—and perhaps someday the functions—of the International Monetary Fund.

The outcome of the conference in Vienna was something of a triumph for Per Jacobsson, 68-year-old managing director of the IMF. His plan for enlarging the fund's reserves [BW Sep.16'61,p76] was supported by spokesmen for the leading industrial countries, but particularly by Treasury Secy. Douglas Dillon, head of the U. S. delegation.

Private talks. Dillon met privately with all the important delegations. Nine filed through his suite in Vienna's Imperial Hotel on Sunday, the day before the annual meeting of the IMF officially opened (pictures). After the formal opening session Monday, Dillon returned to the private conference rooms where the real work of the IMF is carried on. He continued his meetings up to Wednesday, the day set aside for speeches by heads of delegations on IMF problems.

The delegates were not asked to express themselves in a formal vote on the Jacobsson plan. But spokesmen for countries involved made it clear that in principle, at least, there's some agreement on what can and should be done. In essence, Jacobsson's plan is to strengthen the free world's defenses against international currency shifts by adding to the IMF standby credits from the major industrial countries, to be used if the key reserve currencies—the U.S. dollar and the British pound—come under severe pressure.

Three persuaders. Jacobsson and Dillon, with powerful backing by Selwyn Lloyd, Britain's Chancellor of the Exchequer, argued that such standby credits should be in the form of firm and automatic commitments, backed by appropriate legislative action in the individual countries. What they are aiming at are new reserves ample enough to convince speculators that the dollar and the pound can successfully be defended in time of crisis.

The amount they have in mind is uncertain. Unofficially, \$5-billion to \$6-billion is being discussed as a sum large enough to have the psychological effect sought (with \$3-billion to \$4-billion coming from Europe and Japan), though backers may have to settle for less.

Details of the plan—how much the participating countries will be asked to pledge, for example—will be spelled out toward the end of the year. The IMF staff under Jacobsson will prepare this agreement.

Whether the plan actually goes into effect will depend on legislative action in the countries concerned. Some skeptics argue that it will be difficult to get the consent of some of the potential contributors. But most of the key financial leaders left Vienna confident that the agreement reached there in principle can be translated into a firm working plan.

French dissent. Most conjecture concerns the French. Some members of the French delegation expected to the end that Jacobsson would withdraw or radically alter some of his ideas as a result of their objections and qualifications. But, in a series of conferences designed to offset those held by Dillon, French Finance Minister Wilfred Baumgartner failed to gain recruits. One American observer, who had expected West Germany to line up with France behind the scenes, at least, described the West Germans as "most helpful" to Dillon. Their stand was one of the major factors blocking Baumgartner.

Baumgartner did score some points that may be reflected in the final plan. For one thing, he does not want standby commitments available automatically, but sought like an intervening consultation.

Baumgartner also insisted that

U.S. and U.K. should not be able to look for IMF help in correcting their balance-of-payments deficits unless they follow prudent policies at home. Such preachments have long gone out to other countries from the U.S., and France has often been on the receiving end herself. So Baumgartner was plainly enjoying the opportunity of reversing the roles.

Kennedy's intentions. The French demand for advance promises of prudent behavior on the part of the U.S. reflects in part doubts held in conservative banking circles about the Kennedy Administration's willingness to take strong corrective measures if the dollar should get into serious difficulties. Dillon gave informal assurances, but did not commit the U.S. in advance to any particular type of domestic policy because this could cause difficulty in Congress if the standby agreement is presented for ratification.

In their conferences, U.S. officials insisted they found no serious doubts about the fiscal discipline of the Kennedy Administration among financial officials. According to a key U.S. negotiator, "We have no problem from our opposite numbers in finance ministries or central banks. They accept Kennedy's pledge to produce a balanced budget next year as basic Administration doctrine."

In addition to the standby credit proposal, a move to replenish the IMF holdings of a few particular currencies also gained support. Holdings of West German marks and Italian lira are especially low, and it is expected that these countries will make additional funds available.

The long run. Such steps are far from the dramatic innovations suggested by Prof. Robert Triffin of Yale and others who fear the free world is faced with the prospect of a serious liquidity crisis. Triffin has proposed that the IMF be converted into a free world central bank with powers to create and withdraw credit reserves. The Triffin plan has been seriously considered by the Administration, and is far from dead as a long-run goal.

But the steps approved at Vienna were considered a prerequisite to further moves. The Jacobsson plan is not thought of as sufficient to supply all the additional support the dollar or the pound might sometime in the future require. Rather, it's viewed as an essential adjustment in the international financial mechanism, and the U.S. felt confident that it would prove an effective buffer over the short run.

Merger pot is boiling over

Record surge in amalgamations reflects growing conviction of many companies in all lines of business that to operate successfully in today's economy they must grow bigger

Last week's announcement that Ford Motor Co. and Philco Corp. plan to merge is the biggest, flashiest amalgamation proposed in a long time [BW Sep.16'61,p34]. But it's far from the only one.

Merger activity in recent months has been running at a high pitch; higher, indeed, than ever before. Martin Co. and American-Marietta Co. propose to merge next month to create a big ($1-billion in sales) new, widely diversified concern that will cut across a broad swath of industry. Railroads are scrambling for position in a wave of mergers that could completely revamp the railroad map in the East.

Only uncertainty about the attitude of federal regulatory agencies is holding in check a tide of bank marriages.

No abatement. The fact is that the tempo of amalgamations that periodically has attracted attention in Washington and among economic theorists has not abated. American business is continuing to merge and is continuing to bring about some significant changes in the economy.

Traditionally, merger activity picks up when times are good. A booming stock market encourages companies to make favorable acquisitions through an exchange of stocks—"printing their own money" one Wall Streeter calls it. Tax laws help, too. A loss on the books of an acquired company can give a real boost to the reported earnings of its new parent.

The only near-reliable count of mergers and acquisitions is kept by the Federal Trade Commission, which compiles its list from merger announcements in newspapers, financial reporting services, and business journals. Through the first half of 1961, FTC counted 540 mergers and acquisitions, up from 525 in the first half of 1960. In August and September, the pace quickened, and FTC recorded 217 transactions. For all of 1960 the FTC counted 1,012 mergers, lower, but not much under 1959's 1,050 transactions.

Economic pressure. By themselves, these raw figures don't mean much. They don't show the turmoil that may lie behind the passion to merge in some industries. Eastern railroads, in deep trouble in recent years, are struggling to reach merger agreements. Rails are the best example of an old industry weakened by new economic developments and struggling to regain health by combining with each other.

One of the important causes of the railroads' plight is the mushrooming growth of airlines. And ironically, the air carriers also are looking to mergers to solve their own economic troubles. Sharply increased competition during the 1950s found airlines unprepared for the deep changes that jet flights have caused in their operations. The bigger, faster, more efficient jets—plus a slowdown in traffic growth—have left empty seats on planes.

Just this week, an announcement came that could mean the absorption of Northeast Airlines by Mohawk, Eastern, and National (page 36).

In some cases, the government is pressing more quickly toward a cohesive plan of merger than the airlines want. The Civil Aeronautics Board says it will not allow the pattern of airline mergers to be set solely by the "vagaries of the marketplace."

Bank situation. Bankers are in a mood to merge because of geographical restrictions and competition from other institutions. They want to keep pace with the fast growth of their corporate customers by increasing their branches and merging, which gives them funds to make bigger loans.

A 1960 law, however, divides authority for approving bank mergers

between three bank agencies—the Federal Reserve Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corp.—and the Justice Dept. Disagreement among these agencies about who has final say has prompted the Antitrust Div. of the Justice Dept. to file five antitrust suits this year.

Beyond these areas that have had much public attention in recent months are others where changes are taking place more quietly. Wholesaling and retailing have been especially merger-prone. For the first half of this year, for example, the FTC tabulated more than 70 mergers, acquisitions, partial acquisitions, or similar proposals that involved wholesale-retail companies. Vending machine companies are conspicuous among this total.

Retail concentration. The six-month tabulation illustrates a quickening pace in concentration within retailing. FTC suggests that the trend toward chain store operations is extending to department stores. Specialty shops and the smaller food chains are now vulnerable, it says.

The tendency toward concentration in retailing shows greater efficiencies accruing to chain operators and, says an FTC official, "rightly or wrongly, it's happening."

Electronics acquisitions. This movement is in contrast with large numbers of mergers in the electronics industry, which government trustbusters point to as a fine example of a burgeoning industry that has outgrown itself and is trying to catch up. Many acquisitions in this field by large companies simply represent the purchase of a specific skill or maybe simply brain power. Litton Industries, Inc., is regarded as an example.

Lockheed Aircraft, a couple of weeks ago, acquired 100% ownership of Grand Central Rocket Co., a Redlands, Calif., propellant producer. The idea was to give Lockheed a full-fledged team of rocket propellant specialists in its efforts to take part in the space program.

Joint ventures. Another industry with a high rate of merger activity is chemicals. The FTC counted 35 separate transactions—mergers, acquisitions, partial acquisitions — among chemical companies in the first half of 1961. This is in an industry where federal antitrust officials worry about an already heavy concentration in production of raw materials.

Complicating any assessment of merger in chemicals, though, is the sharp growth in recent years of "joint ventures" in the industry. These are companies set up by two or more parents to make specific products, usually utilizing a byproduct of one of the parents. Joint ventures also are a popular device in the fast-growing petrochemicals industry.

These ventures raise many antitrust implications, and the Justice Dept. last year filed a suit challenging one set up by Pennsalt Chemical Corp. and Olin Mathieson Chemical Corp. The joint ventures are bothersome to antitrust attorneys who feel they represent a concentration of control of production of raw materials in areas where there are few producers.

Washington's attitude. Washington's reaction to all the recent merger activity is surprisingly spotty. Top officials of both the Justice Dept.'s Antitrust Div. and the FTC have vowed to be vigilant in enforcing the anti-merger law—Sect. 7 of the Clayton Act, which forbids mergers that may tend to lessen competition or create a monopoly. To date, their records do not indicate any real surge in anti-merger activity, though it sometimes is difficult to isolate the Justice Dept.'s intent in an antitrust complaint—it may toss in a charge of a Sect. 7 violation simply to add another possible winning point before a judge.

Aside from the five bank anti-merger cases, which in this context must go down as a special situation, the Justice Dept. has filed only a half-dozen anti-merger cases since January. Its latest suit was filed this week, seeking to block the purchase of Honolulu Oil Corp. by Tidewater Oil Co. and Pan American Petroleum Corp.

The FTC has filed only two Sect. 7 cases since the beginning of the year, though FTC Chmn. Paul Rand Dixon has indicated the commission will step up its anti-merger work.

Sensitive areas. There are certain areas of the economy in which it would be a safe bet that any merger activity would result in an antitrust suit. They are ones in which the industrial structure is fairly well established; where there are a few leaders; where it is already difficult for new competitors to get into business. Steel is undoubtedly one—Justice successfully blocked the merger of Bethlehem Steel and Youngstown Sheet & Tube as a violation of Sect. 7 [BW Nov.29'58,p65]. The antitrust agencies also are watching more closely when a producer of a basic material acquires a fabricator.

Another crash mars Electra's record

But weekend accident in Chicago shows no sign of the kind of structural failure that caused recent modification

Lockheed Aircraft Corp.'s turboprop Electra airliner (picture) flew under a cloud again last weekend when a Northwest Orient Airlines flight crashed on take-off from O'Hare Airport, Chicago. However, no structural failure seemed involved.

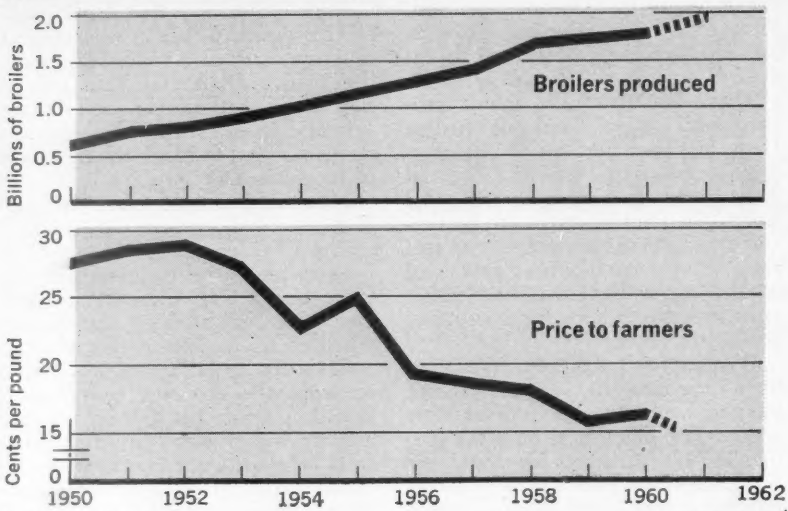
The crash, which killed all 37 passengers and crew members, was the sixth fatal accident in the Electra's 31 months of operation. After two crashes attributed to structural failure, all Electras in service were recalled to Lockheed for strengthening.

Seconds after the Northwest plane, bound for Florida, took off from O'Hare, witnesses say it appeared "sluggish" and wobbly. Its right wing dipped, slowly at first and then more sharply, as though the plane were going into a slow roll.

"It behaved," said a pilot who has flown Electras, "exactly the way it would if it weren't under control."

The last words of the pilot to the control tower, clear in an otherwise unintelligible message, were a shouted "No control!" Why the Electra should have been out of control, however, was not known at midweek. Investigators were searching the crash site for the wire tape from the plane's shattered flight recorder, hoping for a clue.

Broilers: production vs. prices



Data: Dept. of Agriculture © Business Week

Too many chickens

Congress unit hears pleas for federal help for the broiler industry, whose production efficiency has outrun the national appetite. It's contract growing that does it

The diverging lines on this chart have touched off cries for government farm subsidizers to move into a bastion of agricultural free enterprise—the $1-billion-per-year broiler industry.

This possibility is the subject of investigation by a House Small Business subcommittee. Congressmen kept ears cocked for such a need in two-part hearings ended last week; their forthcoming report may lead to further inquiry by a legislative committee. But while the committee was wondering why chicken growers are going broke in large numbers, testimony was largely recriminatory. Giant chicken-feed companies exchanged bitter words with farmers over just who is to blame for the mounting broiler glut.

Ironically, perhaps, broiler production seems to have become too efficient for its own good. Development of new breeds, new feeds, and new growing techniques has resulted in a bird that swells to tender market size in eight to nine weeks on an ever-decreasing intake of feedstuffs. Alongside this, farmers, feed companies, hatcheries, and poultry processors have got together in a highly efficient form of business integration called contract growing [BW Mar.21'59,p167], which now accounts for 95% of U.S. broiler growing. It permits mass production of birds, with close scheduling of various production stages from hatchery to the supermarket.

The contracts vary. Sometimes the farmer puts up only his land, buildings, and labor; in other cases, farmers themselves "integrate" by going into the feed business. Whatever the form, the system adds up to liberal financing and extremely low costs for the grower. It permits a single laborer to produce up to 40,000 chicks four times a year, and a complex growing operation to spit out a million or so each year.

2-billion birds. Result of all this: The nation's broiler output has reached glut proportions. It is soaring to 2-billion birds this year, nearly double the number five years ago—and up from a minuscule 35-million or so when broilers were mainly the farmwife's sideline some 25 years ago. Spurred by declining prices and persistent promotion, every man, woman, and child in America now eats nearly 25 lb. of broilers each year—12 times the annual consumption in 1940.

But there seems to be a limit to how much chicken Americans are willing to eat, and as consumption has leveled off prices have gone into a nose-dive. Quoted at 36¢ a pound on the farm in 1948, broiler prices have edged downward to an average of about 25¢ in 1955. Since then they have plunged to a yearly average of about 15¢ at mid-1961. But the monthly averages are even worse: In June it was 12.8¢, and in some areas in recent weeks farmers were happy to get 10¢ a pound.

What worries the subcommittee is why the glut continues in face of prices that in many cases are below production costs. The bogeyman, growers charged at the hearings, is contract-growing—more specifically the way it's carried on by the two dozen feed companies that directly or indirectly influence nearly two-thirds of U.S. broiler production. Feed companies, say these growers, are placing huge flocks of chicks under contract just to sell more feed.

The Agriculture Dept. supported this argument. A USDA economist said in the hearings that it's his "general impression" that there is a direct correlation between the glut and the contract system. The feed companies have greater fixed costs, he reasoned, "which creates more drive to produce." There were also charges of impending "monopolistic" control by feed companies.

Not so, say the feed companies, which claim:

- They raise relatively few broilers.
- They got into the broiler business in the first place because farmers who formerly were potential or actual customers went into the feed manufacturing business themselves.

Contractors. Ralston Purina Co., one of the largest contractors, figures its independent dealers and its own feed stores will raise about 104-million broilers this year, or about 5% of the U.S. total. But J.D. Sykes, Purina's vice-president for public relations, told the committee that contract growing is a way "to aid and to protect our dealer organization during a period of disastrously low [feed] markets." Competition in the feed industry also forced Pillsbury Co. into contracts, Dean McNeal, executive vice-president, told the committee. It planned to build a $1-million feed mill in northern Alabama on the strength of a prospective market of 20 growers. But by the time the mill opened last year they had dwindled to 10, and now to five, as the others started making their own feed or contracted out to other companies. Said McNeal wryly: "This type of

integration on the part of producers had a drastic effect on our ability to sell feed in Alabama." So Pillsbury started contracting, too.

Whoever is right, the contract growing system is clearly on the defensive in this squabble. Growers themselves have long looked to this system as an ideal marriage of farming and business. But a fortnight ago, the powerful Georgia Poultry Federation did an about-face. Admitting it can't regulate its own industry, the federation voted to seek federal supervision over marketing or production. One idea making the rounds is for the government to start at the source and buy up surplus breed hens—which raises the tantalizing prospect of taxpayers paying for broiler birth control.

Ailing airline ponders merger bid

Northeast, its losses mounting, gets proposal from three lines to merge it with Mohawk, drop its Florida route in favor of Eastern and National; but it is wary

Northeast Airlines, Inc., smallest and sickest of the remaining 11 trunk airlines, now appears to be fighting for its very life.

Until five years ago the carrier was a tiny and struggling airline limited mostly to short-haul routes within New England. In an effort to strengthen it and get it off federal subsidy, the Civil Aeronautics Board gave it a five-year temporary certificate to serve the lucrative New York-Florida market.

Today Northeast has no subsidy and is losing more money than ever. For the first half of this year it had a net loss of $2.8-million, up from $2.2-million for the first six months a year ago. Its Florida certificate is due to expire Nov. 27. So far, at least, the board's plan hasn't worked.

This week three airlines, Mohawk, Eastern, and National, proposed that the experiment should be dropped; that the Florida certificate should not be renewed; and that Mohawk should be merged with Northeast to continue serving the New England cities.

Mohawk is one of the nation's 13 local service airlines, which serve smaller cities and shorter route segments [BW Jun.15'61,p120]. They are subsidized by the federal government.

Deal. Under the proposal, Mohawk would offer 460,000 shares of its common stock to Northeast holders, plus 10-year warrants for an additional 100,000 shares of Mohawk common. Eastern would offer 10-year warrants for 300,000 shares of Eastern common, plus $7-million worth of convertible subordinated notes. National would offer 10-year warrants for 200,000 shares of National common, plus $3-million worth of notes.

The warrants would provide for the purchase of Mohawk, Eastern, and National stock at one-third above the market price of the shares during a specified period after CAB approval.

In return for this, the merged Northeast-Mohawk would operate Northeast's fleet of 11 Vickers Viscounts, subject to acceptance by Vickers of convertible subordinated notes to be issued by the merged company. It would operate Northeast's fleet of 10 DC-6Bs, subject to existing loan agreements with the Chase Manhattan Bank. The remainder of the fleet would be composed of Mohawk's present Convair 240s and 440s and Martin 404s.

Eastern and National role. Eastern would take over three of Northeast's six Convair 880 jets and operate them on the New York-San Juan run. Eastern and National would also "consider disposition of leases on the three remaining 880s, for which the merged company would have no responsibility." All six planes are leased to Northeast, the lease being guaranteed by General Dynamics Corp. [BW Apr.15'61, p108].

Eastern and National would once again have the New York-Florida market to themselves. The merged Mohawk-Northeast would serve all of Mohawk's present cities in New England, New York, Michigan, and Ohio. It would, however, drop many of Northeast's smaller New England points. Instead, these communities would be served through regional airports.

Questions for CAB. The proposal offers possibilities that may prove attractive to CAB—elimination of a carrier on the New York-Florida run, where traffic has decreased in recent years, strengthening a subsidized local service carrier, development of the regional airport system in New England, and further isolation of Howard Hughes from control of any airline. Hughes owns 78% of Trans World Airlines, Inc., and 11% of Atlas Corp., which owns 56% of Northeast. All his airline stock is now in voting trust agreements.

But the proposal also raises two points that may prove difficult:

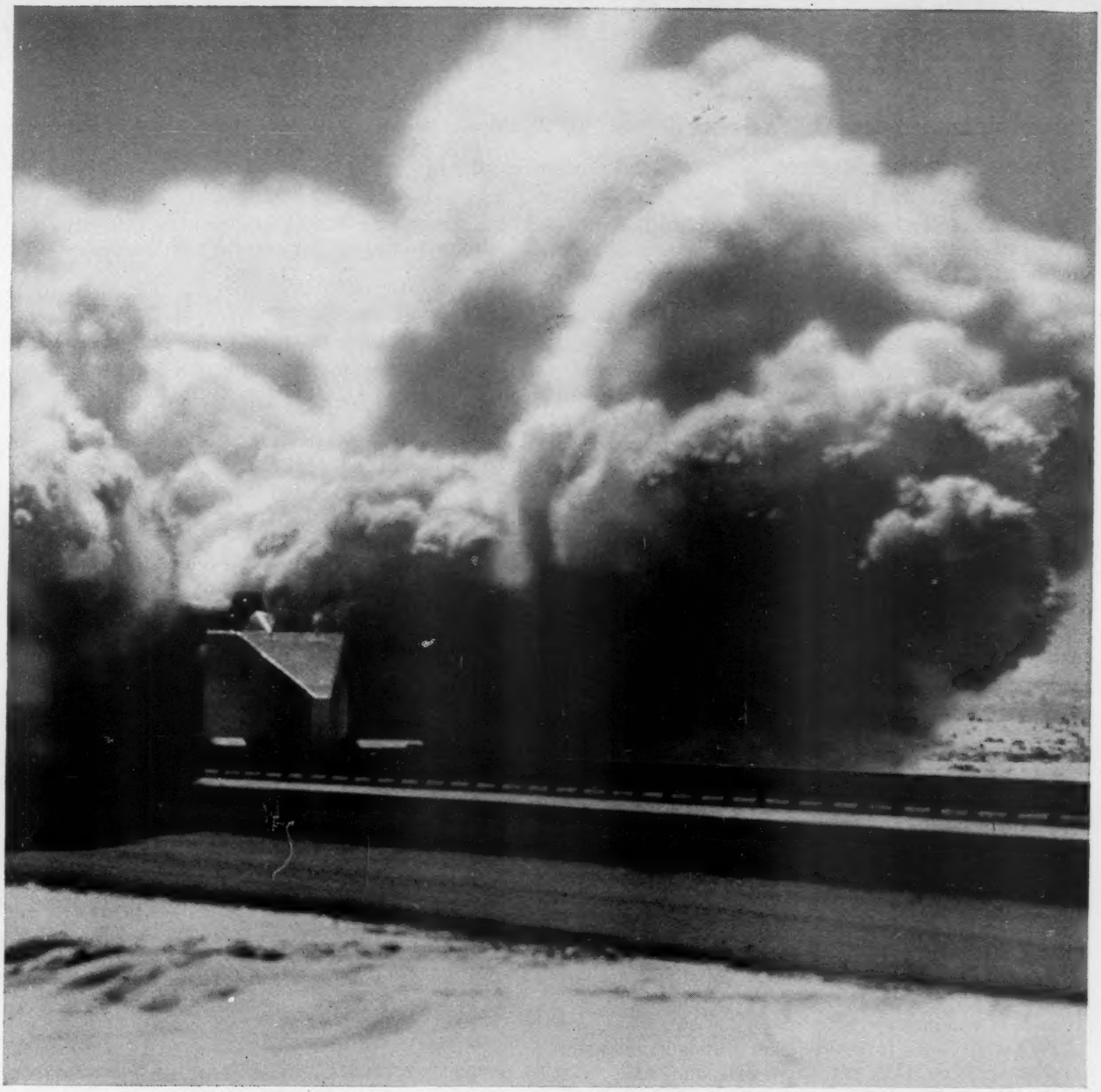
- Would the board allow Northeast to profit by selling its temporary New York-Florida authority? The board has the right to dispose of this route in the public interest without any exchange of money.
- Would the board agree to Mohawk's insistence that the Northeast routes in New England be eligible for subsidy? The CAB is under strong pressure from Congress to reduce, not expand, airline subsidies. In allowing Mohawk recently to take over a number of small cities from Eastern, the board pointedly said Mohawk could not receive a subsidy for serving these points.

Doubts. The three airlines made their proposal to David A. Stretch, chairman of Northeast and president of Atlas Corp.

In reply Stretch said that Northeast would make a thorough study of the bid. He pointed out, however, that Northeast still has an application in for a permanent award for the Florida route, and that Eastern and National are vigorously opposed to the granting of this award.

James W. Austin, Northeast president, who last week predicted that the airline would make money next year for the first time in its 28-year history, declared that none of the Northeast officers or directors had previously had a chance to see or discuss this plan and that it was "self-serving to say the least."

"We're going to take a very careful look at it, quite naturally," he said. "But already we have some grave doubts."



DEPARTMENT OF DEFENSE—AIR FORCE PHOTO

In business

BW

California smog board O.K.'s device to clean up crankcase gases

California's Motor Vehicle Pollution Control Board has approved the first device for reducing smog-producing hydrocarbon emissions from autos. It's a "positive crankcase ventilation system," developed by General Motors' AC Spark Plug Div., and eliminates up to a third of the pollutants in the blowby gases from the crankcase. It does not reduce exhaust emissions.

California law provides that as soon as the board approves two such devices their use will become mandatory under a graduated deadline system. Five more devices are now being tested and officials expect two to be O.K.'d by yearend. The AC Spark Plug device costs an average of $20 installed, depending on the model of car, and with some running up to $40. They are now being installed voluntarily on U. S.-made 1961 models sold in California.

As for devices to cut down on exhaust emissions, nine are now being considered by the board and they too will become mandatory when two have been approved. More complex than the crankcase devices, they are expected to cost between $50 and $100, plus installation.

Action by the California board may set the pattern for similar regulations in at least 17 more states.

Westinghouse countersuit asks $31.8-million for TVA generators

Westinghouse Electric Corp. last week filed a $31.8-million countersuit against the Tennessee Valley Authority. Last July, TVA sued Westinghouse for $20-million in the Chattanooga federal court, charging breach of contract.

Both suits stem from 16 steam turbogenerators installed at three TVA plants in 1951 and 1952. TVA charges that some of the generators were "grossly inefficient" and had "defective materials, workmanship, and construction."

On top of this, in defending the TVA suit, Westinghouse asked that if TVA wins, then Westinghouse be awarded $29.2-million in "credits" similar to those asked in the countersuit.

New wood pulping process promises lower costs, end to pollution

A "hydrotropic" wood pulping process and a related semi-hydrotropic method both promise big money savings for the wood pulp industry, and an end to its pollution of streams according to pilot plant tests still going on at the Brown Co. mills in Berlin, N. H.

The processes, developed over many years by Ralph H. McKee, a retired Columbia professor of chemical engineering, use a hydrotropic chemical, sodium xylenesulfonate, as the principal reagent in the pulping solution. Among the benefits claimed for the McKee processes are:

- Lower capital investment and labor costs. McKee says an existing plant could be converted to the hydrotropic process for one-sixth of the cost of a new plant.
- Because the hydrotropic process reduces the amount of water needed to dissolve pulp chemicals, it makes it easier to dry out the end product. The semi-hydrotropic process needs only 500 gal. per ton of pulp, compared with about 55,000 gal. in older methods.
- The process eliminates the dumping of chemical wastes into rivers and has no objectionable odors.
- Dry-weight yield of the pulping woods will range between 88% and 92%, compared with the present 60%.
- Costs of chemicals used in the semi-hydrotropic process are about 50¢ per ton, compared with between $5 and $30 by present methods.

Senate delays peril House bill for tax relief of du Pont shareholders

An amended bill to ease the tax pains of du Pont stockholders, if the company distributes its 63-million shares of General Motors, passed the House with ease. But its fate is clouded by threats of a prolonged floor fight in the Senate, which could prevent its being passed this year.

The bill as amended applies only to the du Pont-GM case and not to forced distributions in general. And it puts a three-year time limit on the relief, which would treat the distributed GM stock as a return of capital, not as net income [BW Sep.16'61,p32].

Army plans two big new orders for M-113 armored personnel carriers

The Army is planning a massive expansion of production of M-113 armored personnel carriers for both infantry and armored divisions.

California's FMC Corp., which developed the 9-ton air-transportable vehicle and is now the sole producer, will have a "minimum add-on contract" tacked to its present $40.6-million order, to permit quick delivery. On top of that, the Army will award two large orders to two contractors at "dispersed locations." Competitive negotiations will begin soon, with FMC eligible to bid.

Earlier, payments on the present FMC contract had been held up for a month, after Sen. Estes Kefauver (D-Tenn.) asked why the order had not gone to Chattanooga's Wheland Corp., whose bid was only $7,000 higher than FMC's and which is in a labor-surplus area. However, the Defense Dept. demands that bidders in labor surplus areas get preference only if they match other low bids [BW Aug.5'61,p24].

Washington outlook BW

September 23, 1961

Congress recess will give Kennedy freer action

Pres. Kennedy will be freer to act on his own once Congress adjourns. The White House welcomes a Congressional respite as the President and his aides start a new round of negotiations with the Soviets over Berlin and its companion "war and peace" issues.

There is a weariness on Capitol Hill contributing to irritability that only a vacation can remedy. Congressmen who traditionally are proud of their loyalty to the President are tired enough to get in a bickering mood, particularly on the frustrating problem of dealing with Khrushchev. **Kennedy supporters acknowledge the Administration could have gotten rougher handling than it received in the closing, fatiguing days of the session.**

The world crisis, obviously, worked to Kennedy's advantage. **Kennedy got substantial restoration of foreign aid funds after the House Appropriations Committee had cut them deeply.** He won approval of his plan for a disarmament agency, and authorization for his Peace Corps in the closing days of Congress.

(The House of Representatives gave a nod to the present crisis and struck a blow against appeasement by changing the name of the disarmament agency to the Arms Control Agency.)

With Congress gone, Kennedy now will speak with more precise authority as "the" Washington voice. **Members of Congress opposing U.S. day-to-day tactics against the Soviets will not have the floors of the two houses as a forum.** A speech back home carries much less force than a speech in the Senate.

Change in mortgage rates undecided until adjournment

The Administration is considering whether to raise interest rates on home mortgages. Kennedy will be freer to act once congressmen leave town and can't directly complain. The present 5¼% maximum rate on FHA mortgages was installed as a key part of the new Administration's drive to lower long-term interest rates. Democrats in Congress backed up the President last spring in dropping the FHA rate a full ½% below the Eisenhower Administration rate.

Now there is new pressure on mortgage rates, and investors anticipate greater demands for long-term money. Discounts on FHA paper reflect this. Conventional loans are running around 6% for new homes. Top officials meeting in the White House this week decided against raising the 5¼% rate for the time being. **August housing starts, though down, were not regarded to be bad enough to force a decision now.**

Eisenhower sees 'big spending' as top '62 issue

Republican leaders of all factions are rallying around ex-Pres. Eisenhower as a way to appeal to the voters next year. He will be the party's leader in the 1962 campaigning and will probably go to the stump in behalf of Congressional candidates if his present robust health continues. **Certainly, Republican congressmen regard him, not Nixon or Rockefeller or Goldwater, as the strongest leader right now.** And Eisenhower relishes the role; congressmen who see him at Gettysburg say he is getting fun out of politicking now, whereas he regarded politics as a hairshirt when he was in office.

Eisenhower sees the Republicans as winners next year if they hit the

Washington outlook Continued

spending issue hard. **His criticism is aimed at domestic welfare programs and public works.** The Republicans' victory in the dispute over authorizing federal money for electric generators at the Hanford, Wash., atom installation showed the spending issue has appeal. In successive votes on the proposal in the House, Republicans were able to muster increasing majorities each time against the $95-million authorization. Eisenhower is more sympathetic to Kennedy's foreign aid plans, and, of course, fully supports the military buildup.

'Backdoor spending' will be played up

Congress adjourns with Kennedy and the Republicans fighting to a draw over so-called "backdoor spending," a method of financing new programs by direct borrowing from the Treasury rather than from Congressional appropriations. Early in the session, Kennedy won the right to finance much of his housing and area redevelopment projects with Treasury loans rather than with direct appropriations. But the Republicans were able to defeat long-term loans in the foreign aid program. **This week, Administration supporters defeated an attempt to repeal the Treasury borrowing feature** from all government programs; opponents had attached a repeal rider on a catchall appropriations bill.

But the issue will be a live one next session and in the campaign. Supporters of the Rural Electrification Administration, and on the depressed areas and housing programs, see a renewed attack on Treasury borrowing coming, and with increased vigor.

Major legislation carrying over to next session

Taxes and tariffs are the top legislative programs that are carried over to the second session of the 87th Congress. They lead a list of business and economic measures, and they will dominate all but military-foreign policy.

The Treasury Dept. may delay its recommendations for depreciation reform expected early in 1962. The Treasury wants first to win approval of the controversial tax credit for stimulating new capital outlays—that is, the 8% across-the-board proposal.

There will be another major battle over business aids and over revenue raising features such as tightening of expense accounts, limiting exemptions on overseas earnings, and so on. It is too early to say whether a major tax bill will be voted finally, but it is fairly certain there will be no general tax reduction.

Within the next week or so, businessmen can obtain from Congress an analysis in plain English of the draft now before the Ways & Means Committee. **Write to the Joint Committee on Internal Revenue Taxation, New House Office Building, Washington 25, D.C.**

Kefauver, Douglas will push for more regulation

Bills to strengthen the antitrust laws will come up early in the new session. **Sen. Estes Kefauver (D-Tenn.), chairman of the anti-monopoly subcommittee, will hold hearings after adjournment on five measures** designed to give the government increased regulatory authority, to stiffen penalties, and to extend liabilities for violations of the laws to corporation officers.

The legislation sponsored by Sen. Paul Douglas (D-Ill.) to require sellers to specify credit charges on installment purchases will be considered. There is lessening interest in bills to require companies to notify the government before a merger, and on fair trade and labor legislation.

Election opens new issues for Germany

Adenauer is out, at least in the long run, and Erhard is in line to form a new coalition government in Bonn

Ludwig Erhard, now Vice-Chancellor and Economics Minister, is almost sure to succeed Adenauer as chancellor.

Chancellor Konrad Adenauer's iron-fisted dominance of West German politics has ended. Some 33-million West German voters pretty well decided that in last Sunday's elections when they broke the absolute parliamentary majority of Adenauer's Christian Democratic Union and its Bavarian affiliate, the Christian Socialist Union.

Adenauer's successor is almost sure to be Ludwig Erhard (picture), his Economics Minister for 12 years. Erhard is favored by most politicians in the CDU and in the Free Democratic Party, with which the CDU must now form a coalition.

The only question seems to be whether Erhard will get the top job next month, when the Bundestag meets to confirm a new government, or toward the end of the year, after Adenauer has saved face by heading a new coalition government for a while. If he isn't prepared to give up, Adenauer has only one other choice: to attempt to head a minority government whose days would be numbered.

Election effects. Regardless of when the changeover comes, West Germany clearly is entering a new era of political instability. A more independent, even a nationalistic, foreign policy seems almost certain, no matter who the new Foreign Minister is.

Chief contenders for this post, now held by Heinrich von Brentano, are Defense Minister Franz-Josef Strauss and Kurt Georg Kiesinger, Minister President of Baden Wuerttemberg (pictures, right).

CDU losses in the election were about as predicted [BW Sep.9'61, p52]. The party's share of the total vote dropped from 50% to 45%, its seats in the Bundestag (509 members) from 277 to 250. The opposition Social Democratic Party (SPD in its German initials) boosted its vote from 32% to 36%, its seats from 181 to 203. Thus, SPD leader Willy Brandt, mayor of West Berlin, built up his prestige and gained a more attentive ear for his party's ideas.

The Free Democrats—third largest party and CDU's coalition partner prior to 1957—made the largest percentage gain, expanding its 44 seats to 66. So it can be expected to demand major Cabinet portfolios and to exert real influence on policy if coalition with CDU is restored. Its domestic policies parallel those of CDU, but it has pronounced nationalistic leanings in foreign policy.

A more independent foreign policy isn't likely to mean a sharp break with the Atlantic Alliance, and it could permit a more flexible approach to some thorny problems. However, it might mean a less automatic "yes" from Bonn to U.S. proposals.

Cabinet may be key. Bonn politicians are reading the election results as a public call for something new in West German foreign affairs. How the new government will respond will depend much on the nature of the coalition cabinet that's being cooked up in back rooms of all major party headquarters.

The SPD will doubtless make a bid to get into the new government, but its chances are considered virtually nil. An FDP tie-up with SPD looks equally remote. The party's resurgence has obviously convinced its leader, Erich Mende, that he has CDU-CSU where he can get just about everything he wants from coalition with it.

What Mende wants is (1) to dump Adenauer, (2) to get one or two major Cabinet posts, and (3) to get

Franz-Josef Strauss will probably stay as Defense Minister but may have his eye on foreign ministry as next step.

Kurt Georg Kiesinger, who had "too many ideas of his own" for Adenauer, is in line to become Foreign Minister.

two or three secondary posts for FDP. His chances through CDU-CSU are good on all counts.

Erhard team ready. The election, along with age, has taken care of Adenauer. Erhard, who has made no secret of his ambition to succeed to the top job, is said to have had a team in mind to fill key posts whenever Adenauer should fall.

One of these posts is the foreign ministry, held by Brentano as faithful exeçutor of Adenauer's foreign policy. Erhard, often accused of having no head for foreign affairs, is said to want Kiesinger for the job. Kiesinger, then high in the Bundestag, was a hot contender for the ministry in 1957 but was reportedly vetoed by Adenauer because, as one official puts it, "he had too many ideas of his own."

To keep close watch on the economics ministry and assure continuance of his own policies, Erhard may seek to promote his present deputy, Ludger Westrick. But the finance ministry is open—Franz Etzel, in poor health, has retired to banking—and it could be offered to the FDP. If so, Oswald Kohut, a Bundestag vice-president, might be one possibility. In addition, FDP could pick up the justice ministry, which it held in its 1949-56 coalition with CDU-CSU, as well as lesser Cabinet portfolios.

Mende's future. FDP boss Mende himself might be tempted with the job of Vice-Chancellor, now held by Erhard. But it's largely window-dressing, and observers feel Mende would turn it down to wait a more opportune time to join the government. In this event, Brentano might get the title.

Strauss, who is chief of CSU, is expected to remain as Defense Minister, at least temporarily. But, with Adenauer out, he can be counted upon to make a bid for greater power. If his eye is on the chancellorship, as many people think, his first step would be to the foreign ministry. Either as rival to Kiesinger or as a successor a short time from now, he might try for this post with Mende's aid, in return for opening the defense post for Mende.

Then Strauss would be ready to bid for the chancellorship in 1965.

Berlin crisis first. Whatever the makeup of the new government, its most urgent problem will be the Berlin crisis and the Allies' efforts to find a basis of negotiation with the Russians over it.

Most observers feel Bonn officials are preparing to take a "realistic" attitude, to face up to the inescapable fact of life that the Allies may accept the de facto existence of two German states, that they may trade recognition of the Oder-Neisse line for new Soviet guarantees on rights in and access to West Berlin, that West Berlin itself is at best headed for a sort of internationalized limbo, that many neutral nations will formally recognize East Germany.

Bonn realizes, too, that it may have to abandon its revered Hallstein doctrine of breaking off diplomatic relations with countries that recognize East Germany, else it would find itself isolated from a large part of the world.

Reunification. The new government will also recognize, as its predecessor never could, that German reunification is completely out of the question on terms the West has set forth as essential. The only way might be a major change in the alliance of West Germany with the West and a turn down the road to neutralism and inclusion in an atom-demilitarized belt of central European nations.

SPD and, to a lesser degree, FDP toyed with this prospect during the campaign, and there are officials in CDU-CSU who have spoken of it as "not unthinkable." But few observers expect Bonn to countenance the idea. They think the new government will accept the division of Germany as permanent for the foreseeable future and will build its foreign policy on this basis.

Voice in NATO. According to this theory, Bonn will seek to convert West Germany from its "interim" status into a full-fledged member of the Atlantic Alliance, with no further illusions about reunification. It would demand greater political influence commensurate with its economic and military strength, on a par with Britain and France.

This would logically include a demand for nuclear weapons and for a seat in the U.N. To many foreigners, Bonn's demands will have the overtones of a nationalism seeking to redress the loss of eastern provinces, and Washington in particular will find Bonn a less complacent follower of its policy line.

However, on other counts, Washington will find much to be thankful for. Erhard has been a major force in trying to bring the European Free Trade Assn. and the Common Market together; he could prove to be a powerful ally in overcoming French reluctance to admit Britain to the Common Market. Bonn's willingness to play the part of a good creditor nation should also be enhanced under Erhard, who as Economics Minister has been a liberal and effective exponent of industrial development and sound fiscal policies. **End**

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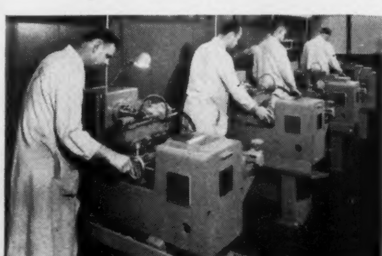

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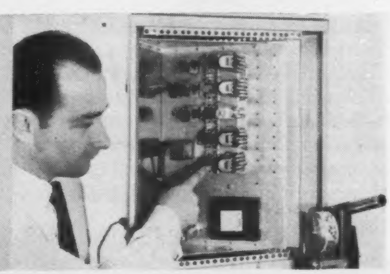

How manufacturing costs compare around the world

In percent; U.S.=100	Total unit cost	Plant costs			Sales costs	Administrative costs
		Material	Labor	Overhead		
Canada	106	**118**	**94**	**102**	**95**	**106**
Britain	82	**110**	**64**	**70**	**65**	**61**
Common Market	85	**124**	**54**	**79**	**71**	**77**
France	109	144	61	74	83	79
Germany	82	115	55	61	70	81
Belgium	104	109	42	101	69	97
Latin America	120	**142**	**53**	**113**	**75**	**176**
Brazil	110	143	45	109	64	198
Mexico	98	124	50	93	75	92
Argentina	136	169	72	120	67	209
Australia	125	**130**	**106**	**86**	**83**	**139**

Data: The Conference Board

Western Europe has the edge

NICB survey finds that U.S. branch plants in highly industrialized countries show lower costs than their home parents. Wages, materials are the big factors

The overseas branch of a U. S. company has lower manufacturing costs than its parent in the highly industrialized nations of Western Europe. In Canada and the less industrialized areas of the world, the parent has the edge on its offspring.

That's the conclusion of the latest report of the National Industrial Conference Board, which analyzed 228 sets of comparative cost figures for U. S. manufacturing companies that maintain plants abroad. The survey covered 21 countries and 10 major industries.

This is NICB's second attempt to test the often cited view that manufacturing costs are lower abroad than in the U. S. Its first study was made in 1956. The present one, released last week, differs from the previous examination in that it reaches beyond plant costs to include selling and administrative expenses.

NICB's latest study (table) came up with few real surprises, but its conclusions are none the less important for any businessman thinking of investing overseas.

Medians. For greater accuracy, NICB uses weighted medians of ratios of foreign to domestic costs for each product, rather than averages. The median allows for single, highly untypical answers that could distort the validity of an average.

The difference can be sizable. The average of manufacturing costs in the European Economic Community (EEC) is only 4% below U. S. costs; the much more meaningful median figure is 15% below.

The breakdown. Taking the median, it costs 18% less in a British plant to produce a given item than it does in the U. S. Inside the EEC, the 15% figure shows sharp individual variations. West Germany, like Britain, is 18% under the U. S. while Italy and Holland—lumped together because neither was represented in many answers to the survey—are 32% under. France actually had higher costs than the U. S. by 9%, Belgium by 4%. Apart from Britain and EEC taken as a whole, Mexico is the only country in the world where manufacturing costs are lower than in the U. S., though here the difference is minute.

NICB found that wages and materials were the biggest factors, taking up directly about half of the manufacturing dollar and coloring the picture for the other major components—plant and overhead, sales, and administration. In every case where it cost more to make an item abroad than in the U. S., the cost of materials was the cause. Where the overseas costs are lower, wages are invariably the cause.

NICB found various reasons for the higher costs of materials abroad. For one thing, a plant abroad relies more heavily on imported or purchased components, while a company in the U. S. is likely to produce its own components. Then there is the vast U. S. network of specialty

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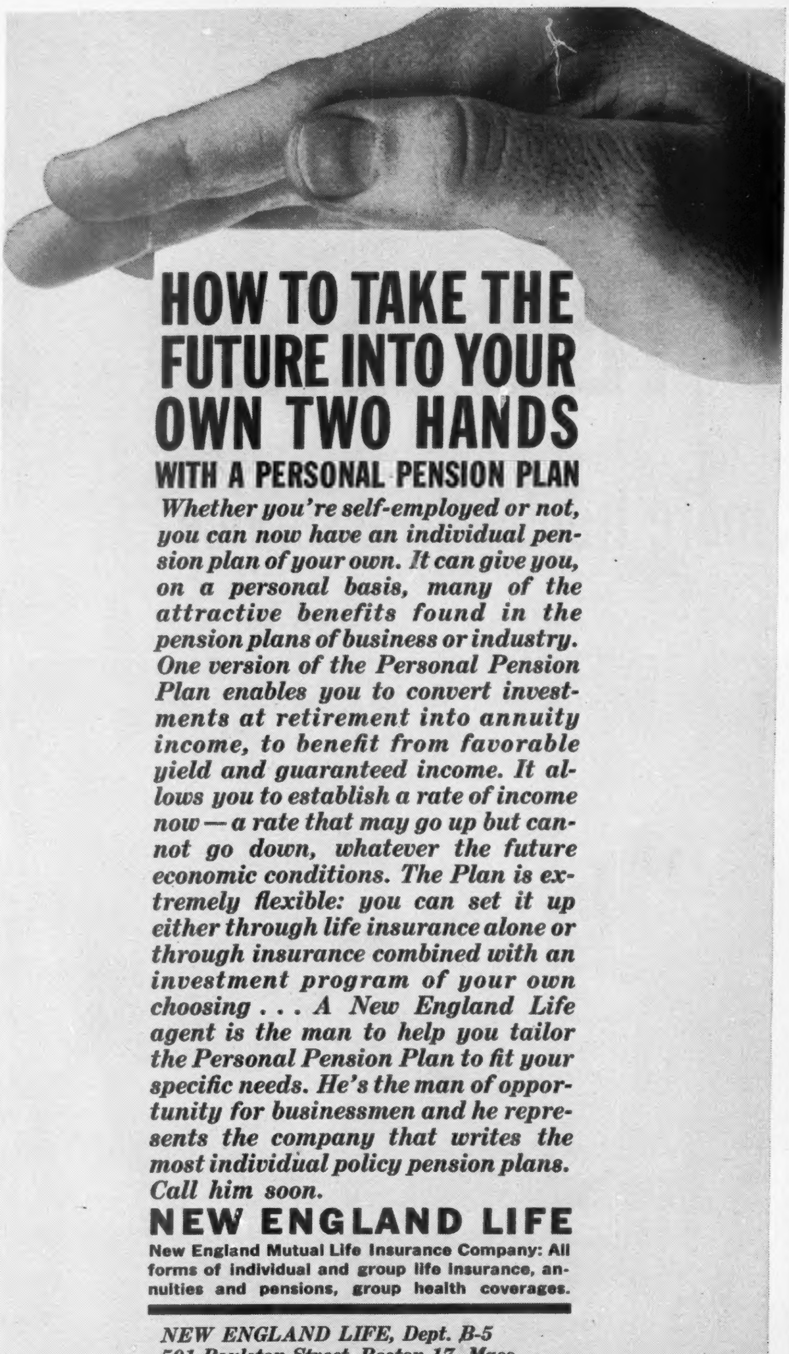


producers; a manufacturer can usually find anything he needs being made somewhere not too far off. Overseas, the same item might have to be imported or tailor-made for the occasion.

Low volume. Low production volume is a frequently cited reason for the higher cost of materials overseas. Not much buying is done in bulk, and volume doesn't justify installing more machinery. So the U. S. branch abroad frequently buys semi-finished products, while its U. S. parent can save money by buying and processing raw materials.

Everywhere in the world, materials cost more than in the U. S. The margin ranges from 9% more in Belgium to a high of 69% in Argentina. Even Britain and West Germany, which enjoy a healthy over-all competitive edge over the U. S., have to pay 10% and 15% more, respectively, for their raw materials.

Productivity. Labor costs tilt the balance most heavily against the plant in the U. S.—yet NICB found that the margin was rather less than had been presumed. That's because the higher productivity of labor in U. S. manufacturing plants compensates to some extent for the much lower wages paid abroad.

Here's an example: The average worker in the U. S. makes $2.76 an hour, including fringes, about triple the 84¢ an hour of the British worker and the 91¢ of the West German. But when you take the median figure for wages per unit produced, the cost in Britain is only 36% lower than in the U. S., and 45% lower in West Germany.

One reason given for this higher productivity in the U. S. is the greater capital investment in machinery. Another is that skilled workers are less plentiful abroad than in the U. S.

Incidentally, of plants where capital investment topped $20,000 per worker, the U. S. operation enjoyed a cost-per-unit advantage over the foreign plant in about 60% of the cases. The percentage shrank as the investment per worker went down.

In the cost factors other than materials and wages, the overseas plant generally had the advantage. Lower wages overseas for maintenance workers tend to keep down overhead; so does the relative scarcity of specialized machinery that needs servicing. Sales abroad are usually left to independent distributors. And administrative and office costs run lower—partly because the home plant usually does much of this work for its overseas offspring, which distorts the comparison. **End**

In business abroad

BW

Export credit insurance program is authorized by Congress

Export credit insurance against commercial and political risks soon may be available to exporters of goods sold on terms of up to six months.

Congress last week passed a bill authorizing the Export-Import Bank to join a group of private insurance companies to set up an export insurance pool. This plan has been under consideration since early last spring [BW Mar.25'61,p32].

Now **the bill is on Pres. Kennedy's desk, and it's fairly sure that he will sign it.** Under the plan, each participating insurance company would underwrite part of the insurance pool with Ex-Im backing. **The private syndicate would insure against commercial risks, Ex-Im would cover political risks,** such as inconvertibility of proceeds from exports. The legislation puts a ceiling of $1-billion on the program; private companies would underwrite a maximum of $1-million on any single transaction.

How much the new credit program will spur exports remains to be seen. U. S. exports have been lagging in recent months, while imports have been rising. The Administration hopes that this plan will help to offset this imbalance.

Ex-Im hopes that the new guarantee system will be in operation by the end of the year. However, some exporters, used to Ex-Im's rather slow pace, frankly doubt it.

India to open New York office to promote U. S. private investment

India will open an investment information center in New York Oct. 4 to promote the flow of private U. S. capital into direct investments in India.

The center, financed by the Indian government and the U. S. International Cooperation Administration, will attempt **to bring together Indian and U. S. businessmen to form joint ventures in India.** Generally, the foreign partner in such ventures will be asked to take a minority position, although the Indian government is not rigid about this rule.

India is eager to increase the flow of private foreign capital into the country to assist in industrial development under the five-year plans. The third plan started last April [BW Jan.28'61,p117].

In the Five-Year Plans, certain industries are reserved to public ownership, others will include both public and private ventures, while still others are placed in the private sector of the economy. **India is particularly interested in attracting investments in fertilizer, chemicals, machine tools, and aluminum.**

India has a mixed socialist-private enterprise economy, and this way inhibit private investment from abroad. But Indian spokesmen say the private sector has grown faster than the public sector in recent years. As incentives to foreign investors, they also cite tax provisions, a sheltered market, and free remittance of earnings and capital.

Morocco restricts imports, seeks foreign capital to bolster its economy

Morocco's Minister of Finance Mohammed Douiri moved this week to shore up that country's faltering economy. He restricted imports and plans actively to seek foreign investment capital.

Morocco's economic troubles have been building up over the last two years. For one thing, **Morocco has been running a large deficit in its balance of payments.** For another, France, traditionally Morocco's prime source of investment capital, is no longer investing heavily in that country.

The result is that Morocco's reserve of francs has dwindled to the danger point. On top of this, the government had to pick up the tab for maintaining Moroccan troops in the Congo.

The first thing the economic program will hit is imports of crude and refined oil from the franc area. **In the future, says Douiri, Morocco will buy all petroleum products from Spain, the United Arab Republic, or Russia, all non-franc areas.** But even this will dry up once Morocco's own oil refinery in Mohammedia goes on stream late this year.

The outlook for people looking to sell anything in Morocco, says Douiri, is very dismal.

U.K. manufacturers cut 1961 capital spending as result of auto industry troubles

Britain's manufacturing industry has cut back its investment plans for 1961. **While the investment total will still be considerable—some $3.5-billion, a 21% increase over last year**—it will be well below the initial estimates made early this year.

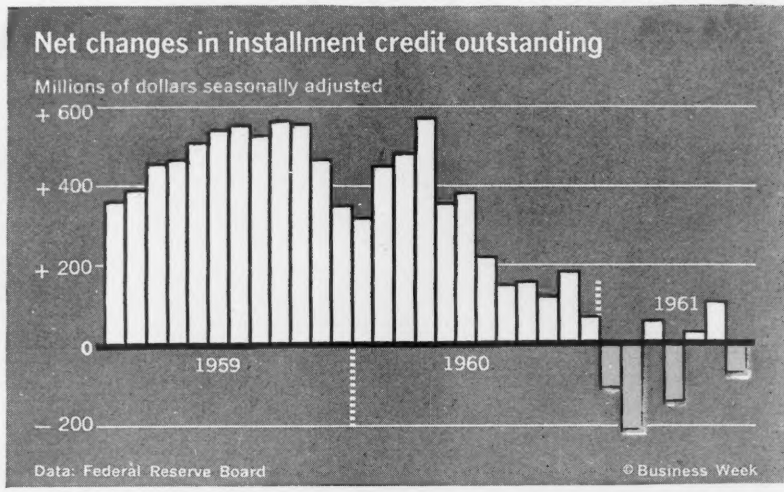
That's what Britain's Board of Trade said this week in its second semi-annual estimate of British capital spending plans for 1961.

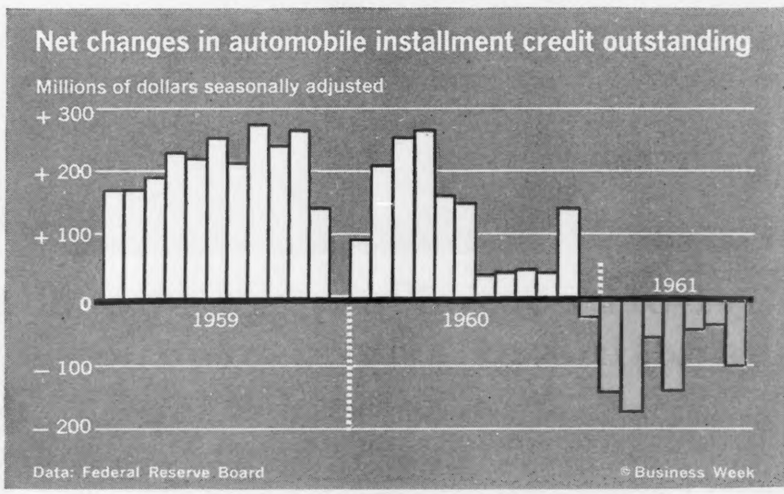
British manufacturers originally planned to spend 30% more than last year's $2.9-billion, but their plans have been revised downward, mainly because Britain's hard-pressed auto industry has had to cut back its spending program.

The Board of Trade warned that capital spending may drop even further below present estimates, which are based on company plans made before Whitehall's economic austerity program was announced last July [BW Jul.29'61,p23].

Already, preliminary estimates show that next year capital spending will fall 2% below this year's total. The reason is that Britain's iron and steel industry will invest much less in new plant and equipment than it did this year.

Charts of the week





Consumers play it thrifty

One of the more puzzling trends in the economy this year has been the apparent reluctance of the consumer to go any further into debt.

This hesitancy to mortgage future earnings was easier to explain earlier this year when the recession threatened job security. But recovery began in March, and had spread wide and deep by midsummer when personal income set a new record.

Still, as recently as July, despite these assurances that a vigorous comeback was under way, consumers continued to pay off more credit obligations than they incurred.

The poor showing in passenger cars sales is largely to blame. Auto credit usually accounts for about 40% of total installment debt, with anywhere from 55% to 85% of cars sold on the cuff. So when consumers pay down auto accounts for eight months in a row, the automobile industry is understandably concerned.

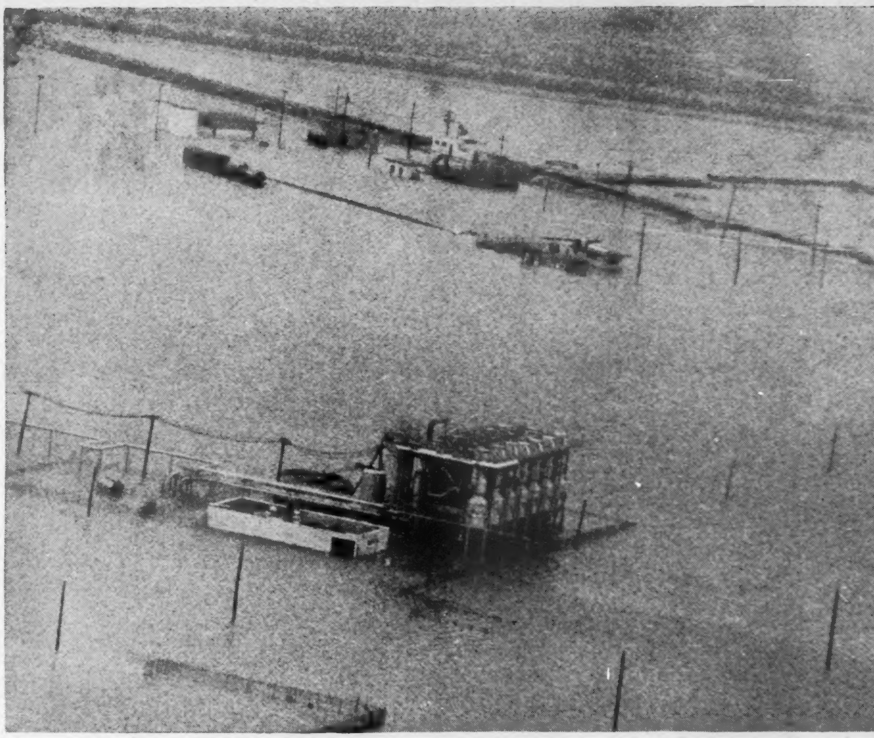
Right now, auto makers are hoping the 1962 models will whet the public appetite enough this fall to reverse the trend to thrift.

Other cash demands on personal income are doubtless playing a part in the consumer's reluctance to take on higher monthly payments. Tuition costs, for example, are an important consideration right now. And travel and recreation attractions have been luring an increasing share of the consumer dollar.

RESEARCH

Turning salt water into pure

Despite Hurricane Carla's blow at Freeport plant, search for methods goes on



Too much water swept into the government's experimental distillation plant at Freeport, Tex., during Carla. But the plant limped back into action in five days.

When Hurricane Carla's flood receded, Interior Dept. engineers hurried to the government's first experimental seawater conversion plant (picture) in coastal Freeport, Tex., and they learned something that may alter ideas about various ways of purifying salt or brackish water.

Distillation plants, such as the one at Freeport, had been considered relatively vulnerable to storm damage. They depend on electric power, have a lot of electrical equipment. Yet men from the Interior Dept.'s Office of Saline Water found the Freeport plant stood up remarkably well to the wall of water, driven by Carla's 130-mph. winds, that flooded the plant.

In the control building, walls had been knocked out, and $50,000 to $100,000 worth of damage done to the panel board and other instruments. But the plant itself was cleaned up quickly, motors and pumps dried out and lines and distillation towers freed from silt. With emergency generators and steamboilers, the plant was able to be put back in operation in slightly more than a week's time. Meanwhile, the fresh water in the storage tanks, which were half full when Carla hit, was made available to the stricken residents of Freeport.

Comparing five ways. By 1965, the Office of Saline Water expects to have cost analyses and operating data on at least five methods of purifying water. Its experimental units include Freeport, based on a distillation process; Webster, S. D. [BW Sep.16'61,p134], electrodialysis, an osmosis technique; Roswell, N. M., vapor compression; Wrightsville Beach, N. C., freezing-desalting, and San Diego, flash evaporation.

Vulnerability to storm damage may prove in the end to be not a critical consideration in the comparison of the various methods of water purification, however. Electrodialysis, for example, is also considered highly vulnerable, but it is regarded as the most economically practical method of purifying brackish waters inland.

However, the discovery that a distillation plant such as Freeport's is not so fragile as engineers had believed may aid this method in competition with, say, flash evaporation. One of that method's virtues was considered to be its minimum of electrical equipment that could be put out of action by a storm.

Race against time. The Interior Dept.'s study of five methods by 1965 will be none too soon. The search for a reliable and reasonably cheap way to turn salt water into fresh is one of the basic and most demanding problems that faces scientists and engineers today.

In the continental U. S., the average stream flow of fresh water is estimated at 1,100-billion gal. a day. But only 515-billion gal. of this is both usable and dependable. The U. S. is using 323-billion gal. of water a day right now; by 1975, consumption is expected to creep past 450-billion gal., and half a dozen years after that, it could pass today's 515-billion gal. of available fresh water.

About half the current 323-billion gal. a day goes for irrigation, but industry, too, is a prodigious consumer. Manufacturing plants use 130-billion gal. of water per day, about 40% of the total. It takes 60,000 to 70,000 gal. of fresh water to make a ton of steel, 200,000 gal. to make a ton of rayon, 600,000 gal. to make a ton of synthetic rubber.

Getting costs down. Processes have long been known for obtaining fresh water from either seawater or its less salty cousin, brackish water. During World War II, several methods were used to distill fresh water from seawater in small quantities. But costs were too high for general use—$4 to $5 per 1,000 gal., compared with about 30¢ for city water in the U. S.

Large distillation plants have brought the cost of fresh water from seawater down to $2 per 1,000 gal. The Freeport plant had cut the cost to $1.22 (including 25¢ for engineering overhead) when Carla hit.

Seawater offers a maximum challenge, since it is made up of about 3.5% by volume, of dissolved salts. Nearly four-fifths of the salt content is sodium chloride, ordinary table salt in a crude state. Its 35,000 parts per million must be reduced to less than 500 ppm. to be acceptable as drinking water.

Most industry and government

Congress has allocated $75-million for water conversion research and development . . .

Story on page 61

experts agree that the cost of converted water, even seawater, can be brought down eventually to the level of today's municipal water. But they won't guess how soon. "Cutting a nickel off is getting to be as hard as cutting a dollar used to be," says an OSW official.

No one 'best' way. Engineers are ready to predict, though, that no single system will prove to be "best" in all locations. Cost of electric power at each location will be a factor, for example; so will the nature of the local water supply of non-potable water.

Electrodialysis, a process of filtering out the salts by means of membranes and an electric current, looks good for converting brackish water, for example. But it takes too many passes through the system to remove the salt content of seawater. Cheaper or more efficient electrodialysis methods may be devised, but at the moment the process doesn't look competitive with the freezing methods [BW Jun.18'60, p111] or with distillation and evaporation for large-scale conversion of seawater.

Congress has allocated $75-million for water conversion research and development over the next six years, but OSW may ask for a supplemental grant to try vapor compression on seawater. This method is to be used at Roswell, N.M., on brackish water. Combinations of methods may also be tried on a pilot-plant scale.

Distillation. In addition to weathering a hurricane, the Freeport plant is reported on the way to solving the problem of scale deposits, a particular bugaboo of the distillation process. The original slurry method of eliminating scale didn't work well, so OSW engineers substituted a pH (hydrogen ion concentration) scale elimination method, with excellent results so far. Reduction of scaling and corrosion could materially improve the economics of distillation as a purification process for seawater.

Electrodialysis. The Webster (S. D.) plant will be the government's second experimental unit when it is turned on later this year. Many plants throughout the world use this method, which has proved its superiority at least in demineralizing brackish water.

One big problem to be solved: how to dispose of the concentrated brine, a byproduct of the process, without excessive cost. At Coalinga, in California's San Joaquin Valley, the first town in the U. S. to get its drinking water by electrodialysis the problem of finding an inexpensive method of brine disposal is a real drawback to an otherwise fairly economical source of water. Today's cost of $1.45 per 1,000 gal. might be cut as much as 25% if this problem could be solved, engineers say.

Freezing method. An OSW report recently noted that the freezing-desalting method seems to have as promising an economic potential as any. The ice that forms when seawater is frozen is relatively pure. The method's chief drawback has been the high initial cost of plant, compared with an evaporation unit of equal capacity.

The government is drawing up plans for a freezing-desalting plant at Wrightsville Beach, N. C.

Evaporation. Before yearend, OSW's big evaporator plant, with 36 stages, will be given its trial runs at Point Loma, San Diego. The plant is rated at 1-million gal. per day.

The State of California is bullish on the prospects for flash evaporation and has contributed 5% of the construction cost. San Diego, which will buy the fresh water at 20¢ per 1,000 gal., will grade the site and provide a road and pipelines.

Vapor compression. The experimental 1-million-gal. per day forced-circulation vapor compression distillation unit at Roswell, N. M., is still far from being built. But it, too, has strong local backing. The State of New Mexico has agreed to contribute $100,000; Roswell will provide the plant site and will dispose of the brine byproduct.

Roswell's problem in converting brackish water is more difficult than that of Webster, S. D. Instead of a mere 1,800 ppm., its brackish water contains 24,000 parts per million of dissolved salts. This means not only higher estimates of conversion costs (60¢ a gallon, compared with 30¢) but also higher costs of disposing of the brine. **End**

Space medicine gap?

Soviet account of Titov's physical experiences during 24-hr. orbital flight indicates the Russians may be leading the U. S. in medical phase of space technology

Although many questions still remain unanswered about Maj. Gherman Titov's historical orbital flight around the earth last month [BW Aug.12'61,p25], the latest dribble of information proves that the Russians are making tremendous progress in the field of space medicine and are committed to large-scale R&D programs in this area. This is clear from material that the Soviet Academy of Sciences is gradually releasing on his space flight.

Weightlessness. Apparently, the Russians themselves are most impressed with their increased knowledge of the effects of gravity on man in space. They claim that although weightlessness (the condition in which a body is subjected to zero gravity) does cause unpleasant sensations, such as nausea, dizziness, loss of balance, it is an individual reaction and one that can be overcome with training. "This important discovery," reports Pravda, "indicates man could endure zero gravity up to 24 hours without danger to life or health."

During Titov's sustained flight in zero gravity, Russian scientists found that he suffered no pathological disturbances, but that there were some pronounced changes in the function of his "vestibular apparatus" (inner ear). Although the loss of balance caused by this change apparently had no effect on Titov's ability to carry out his work aboard Vostok II, Soviet scientists admit that subsequent experiments will be necessary to determine whether the "vestibular change" is peculiar to Titov or if it will be common among all space travelers.

If the latter is the case, the scientists feel that it may be necessary to build artificial gravity apparatus into future space ships. This could mean the addition of considerable weight to a space capsule—one that the Soviets (because of their greater big booster rocket capability) could tolerate. But it could cause a crimp in U. S. plans to put an Apollo (three-man) space capsule on the moon by 1967.

Other than loss of balance, the Russians report that Titov experienced only minor changes in his bodily function. His respiration and heart beat quickened during certain phases of his flight, but not drastically; "undoubtedly much of this deviation was of an emotional origin." While he was asleep in space, Titov's heartbeat was virtually the same as that recorded on earth previous to the flight.

Sophisticated equipment. The latest information out of Moscow also indicates that the life support systems in Vostok II are highly sophisticated and reliable. Temperature, humidity, and gas exchange were controlled automatically with optional manual equipment in case of emergency. In addition, Titov wore a space suit that could have sustained his life if the cabin systems failed.

Prior to Titov's launching, and throughout his flight, Soviet ground observatories kept a close watch on increases in solar activity and cosmic radiation. Abnormal conditions might have exposed him to incalculable dangers.

Challenge. Although it is impossible to translate Soviet progress in space medicine in terms of our own, it is becoming obvious that the Russians may again be taking the lead in another highly important phase of space technology. The fact that the Russians can keep a man alive in space for up to 24 hours undoubtedly will spur our own space medicine research.

U. S. missilemen are confident that they now can build equipment to get a man into space and return him safely, but the construction of life support systems and general space medicine is predicated largely on unproven theory. The Shepard and Grissom space capsule shots proved out some of that theory, but their 15-minute ballistic flights still leave the U. S. in the dark when it comes to the effects of prolonged orbital flight on man.

U. S. space medicine is slated for only $16-million to $18-million of the National Aeronautics & Space Administration's 1963 budget. **End**

Cost of R&D goes up twice as fast as the number of technicians

A National Science Foundation report substantiates what many observers have long suspected about soaring research and development expenditures. Whereas research spending increased 95% (about $5.2-billion to $10.1-billion) between 1954 and 1958, the number of professional R&D personnel in the U. S. increased only 50% (from 223,000 to 331,000).

NSF explains the difference between the gain in personnel and expenditures this way:

- The volume of expensive consumable items used in R&D has increased.
- Research equipment has become more costly to buy, operate, and maintain.
- Real wages of R&D scientists and engineers have risen.

On a percentage basis, colleges and universities showed the greatest growth of R&D personnel, with an 82% increase between 1954 and 1958. Industry represented the next largest increase, 46%, followed by the federal government and non-profit institutions.

However, in real numbers industry added the most men to R&D ranks: approximately 75,000.

The survey shows that all the natural sciences benefited from the personnel increase, but that the life sciences led the field with a gain of 72%. Physical engineering was next with 52%.

Despite the many changes in scientific manpower, the distribution of R&D personnel was about the same in 1958 as it was in 1954: about 70% in industry, 10% to 15% in government, colleges, and universities, and only about 2% in non-profit research organizations.

Perhaps the most indicative figure of growth is that over-all scientific personnel, administrators, and others, showed a 25% gain between 1954 and 1958, but R&D personnel—people actually engaged in laboratory work —jumped nearly 50% in that time.

PHS strengthens its network for checking on perils of fallout

The U. S. Public Health Service has been quietly and systematically strengthening its network of stations to detect radioactive fallout during the past year. More than 100 stations are now in operation—constantly checking for potential health threats.

Speaking to the First Symposium on Radioecology, at Colorado State University in Fort Collins last week, Dr. Francis J. Weber, chief of PHS' Radiological Health Div., said that levels in food, water, and air are currently all well within safe limits. **But the resumption of atmospheric bomb testing by the Soviet Union makes it necessary to increase vigilance—especially in testing food.** Strontium, cesium, and iodine isotopes—all of which have a relatively long half-life—will be particularly checked by PHS.

If both land and sea become equally contaminated, University of Washington scientists told the symposium, it may be necessary for man to get more of his sustenance from beneath the ocean. **Not only does water have a diluting effect on radioactive isotopes of strontium 90, but marine life also tends to discriminate against the intake of strontium.** Tests run shortly after the 1958 U. S. bomb tests in the Pacific showed that much of the strontium 90, spewed forth in the explosions, precipitated with the calcium hydroxide in seawater and fell quickly to the bottom of the ocean. No genetic abnormalities were discovered in fish that survived the blasts.

All hands at the conference agreed that additional research is sorely needed into the effect of radioactivity on marine life as well as animal life.

Wide program of neurological research reports slow but steady progress

Slow but steady progress: That's the latest report on the research activities of the National Institute of Neurological & Sensory Disorders. A broad program of research into the cause, control, and cure of neurological disturbances has been laid out in the labs of the institute and in universities, medical schools, and private research institutions in the U. S. The work has produced no startling developments—yet. **But scientists, close to the field of neurology, are sure that important advances will be coming soon.** For example:

- Recent pharmacological studies by the NINDB, using the bulbs of daffodils and other plants in the amaryllis family, have produced two chemicals (galanthamine and lycoramine) that look extremely promising for the treatment of myasthenia gravis.
- The perennial question of a possible virus agent as a cause of multiple sclerosis will get a real test soon because of the discovery of an infectious disease in sheep and goats that closely resembles multiple sclerosis in humans. NINDB researchers have discovered that the disease in sheep and goats can be suppressed by administering the same chemical compound that caused the disease in the first place. If researchers can find how this suppression works they may have a real test to determine, once and for all, whether viruses cause multiple sclerosis in humans.
- A team, working from the discovery that certain tranquilizing drugs can produce transitory Parkinson-like symptoms in humans, has brought new insight into the chemical basis of some forms of Parkinsonism.
- Migraine headaches have been shown to be associated with the liberation of vasomotor enzymes into the neurological system. A new drug, currently under test, promises to prevent this.
- The chemical basis of one rare but baffling form of muscle disease—familial periodic paralysis—has been firmly pinned down. The next job of institute scientists will be to try to develop a drug to prevent this condition.

General automatic programing systems

	Bendix G-15	Bendix G-20	Burroughs 205	Burroughs 220	Burroughs 5000	Control Data Corp. 160	Control Data Corp. 160 A	Control Data Corp. 1604	General Electric 225	IBM 650	IBM 704	IBM 705	IBM 709	IBM 1401	IBM 1410	IBM 1620	IBM 7010	IBM 7070	IBM 70…
ALGO [Universal Algebraic language compiler]	●																		
ALGOL [International algebraic compiler]			●	●	○														
Algebraic Compiler		○																	
AUTOCODER												●		●	●			●	●
CALINT [Algebraic interpretative program]						●													
COBOL		○			○			○	◉			◉	◉	○	○			◉	
Commercial Translator												●	●					●	●
FORTRAN						●	○	●		●	●	●	●	●	●	●	●	●	●
ALTAC																			
FORTOCOM			●																
FORTRAN/ALGOL																			
FLEXIMATIC [Combined business and scientific]																			
FLOWMATIC [Business compiler]																			
FACT [Business language compiler]																			
GECOM [General compiler]									●										
JOVIAL [Modification of ALGOL]																			
MATH-MATIC [Mathematic language compiler]																			

● available now ◉ available last quarter 1961 ○ available in 1962

PRODUCTION

Packaged logic for computers

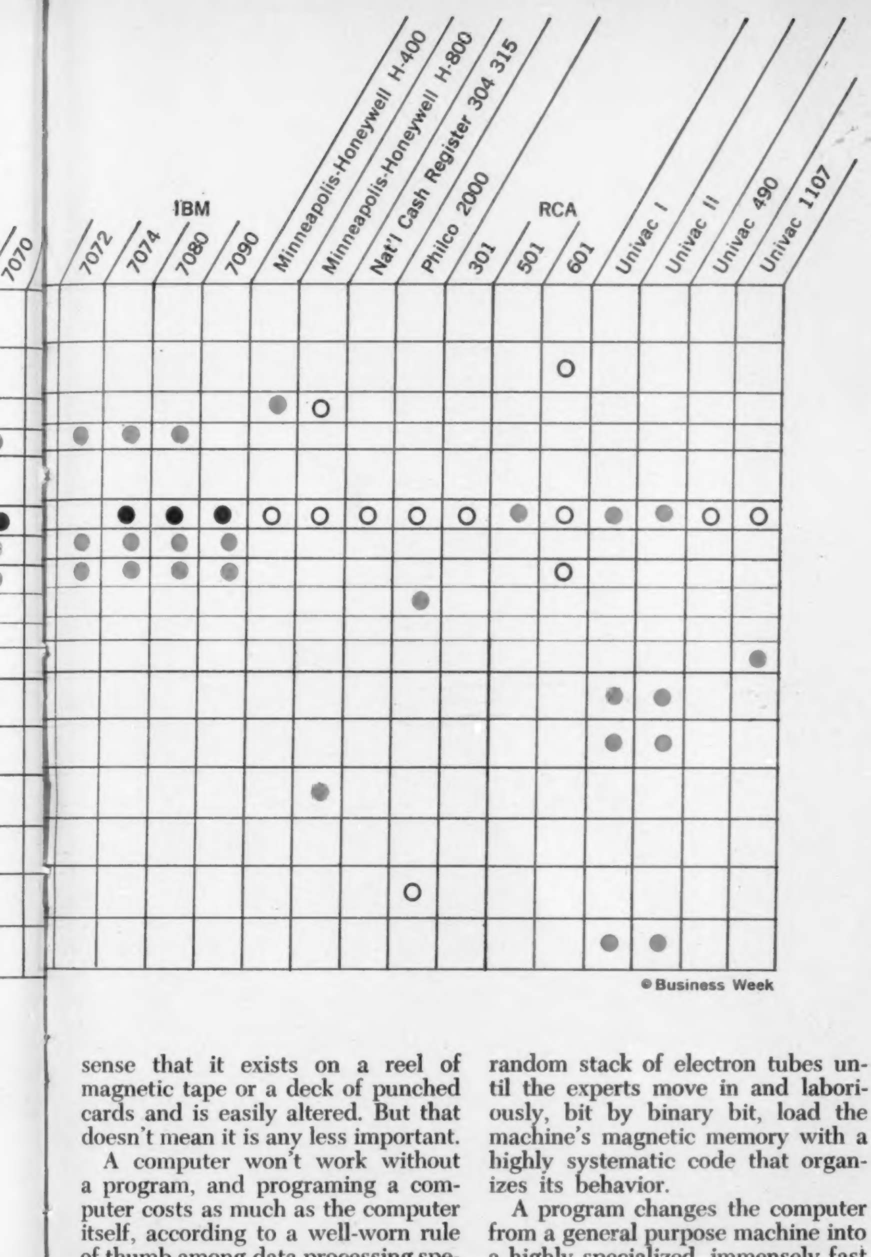
The software that makes computers work is coming now in ready-made programs developed by experts, and systems that enable computers to write their own programs

The odd-sounding names scattered along the unreeling tape in the drawing on the cover should not ring strange to an executive's ear, though the hoariest of them is less than seven years old. ALGOL, COBOL, PERT, SURE, and their proliferating brethren are the nicknames of computer programs—the complex instructions that direct electronic computers. They are powerful aids for management, manufacturing, engineering, and science.

Computer users, consultants, and computer manufacturers have invested hundreds of man years of work and millions of dollars in these programs and systems with one goal in mind: simplifying the task of using electronic computers so they can be put to work on the jobs they are capable of doing without imposing a tedious and costly burden on the user.

'Soft' and 'hard.' Some of these master computer programs are becoming as important to the task of managing larger corporations as turret lathes, transfer machines, or chemical stills are to turning out the companies' products. In the jargon of the data processing world, these programs are called "software" to distinguish them from "hardware," the actual physical equipment of data processing.

The "hardware" includes the computer itself and its expensive tape transports, printers, card punchers, automatic typewriters, and other accessories. In comparison, a computer program is relatively "soft"—in the



sense that it exists on a reel of magnetic tape or a deck of punched cards and is easily altered. But that doesn't mean it is any less important.

A computer won't work without a program, and programing a computer costs as much as the computer itself, according to a well-worn rule of thumb among data processing specialists. Thanks to improved "software" packages—ready-made programs that come with almost every computer now made—this cost rule may no longer be valid. Nevertheless, U. S. business and government computer users have invested at least $2-billion in privately developed programs since 1950.

I. Softwares key role

It isn't necessary to understand in technical detail how a computer is programed to see why it costs so much to get computers running. An unprogramed computer is merely an immensely complicated electronic network. It's as useless as a random stack of electron tubes until the experts move in and laboriously, bit by binary bit, load the machine's magnetic memory with a highly systematic code that organizes its behavior.

A program changes the computer from a general purpose machine into a highly specialized, immensely fast calculating tool, custom built, so to speak, to do a particular job economically. But each job it's to do requires a special program to "redesign" the computer's logic. Fortunately, programs are retained on reels of tape or decks of punch cards and can be used over again.

Instant change. Once programs are available, the computer can be changed almost instantaneously from one kind of special purpose machine into another. That job is relatively simple. It's akin to changing the rolls on a player piano: By putting in a roll, you change the instrument from a general purpose piano to a special purpose machine capable of rendering Sweet Adeline. Another change of rolls and it's a special machine for playing Chopin's Etudes.

Likewise, with the proper program, you can change a computer from a special purpose payroll accounting and checkwriting machine to a device capable of scheduling production in a job shop, or, possibly, keeping track of all the transactions in a whole corporation.

Cost headache. The curse is that rolls of tape or decks of cards for programing a computer cost a lot more to develop than piano rolls. One consultant estimates that it costs at least $2 per instruction to do it by hand. That would compare with $2 per hole on a piano roll—and that's expensive entertainment.

One insurance company, for example, figured that its programing costs exceeded $1-million when it switched several years ago from hand and punchcard accounting to computers. Today, the same programing job could probably be done for much less cost, thanks to the newer "software packages" of programing aids that come with computers, plus the hundreds of programs and routines developed by users and made available through mutually maintained program libraries (table, page 73).

Inside out. Computer software, because it determines how quickly and easily a computer can be prepared to do a job, and at the same time affects the machine's ultimate efficiency in actually performing the work, has almost turned the business of selling computers inside out.

Says Gordon Smith, vice-president and director of marketing of Remington Rand Univac: "Major computer buying decisions will from now on be based on software, which, until recently, has taken a back seat to hardware design. This will be especially true in medium and large-scale computers."

Lacy Goosetree, sales manager of General Electric Co.'s electronic computer department, predicts that software will have a major effect not only on sales, but on the design of computers themselves. He says, "in the next five years, all manufacturers' computers in the same size range will look pretty much alike. They'll have about the same capabilities of storage and arithmetic speed. The big difference will be software."

Expanding. Not everyone agrees with Goosetree's prediction, but there is absolute unanimity on the importance of software. Every computer manufacturer's programing department is expanding fast.

- Last month, Minneapolis-Honey-

well Regulator Co.'s Electronic Data Processing Div. gave its automatic programing group equal status with engineering, manufacturing, and marketing divisions.

- At Radio Corp. of America, the programing group now occupies a whole building of its own.
- International Business Machines Corp. now has 1,200 computer programers—all but 200 working on automatic programing systems for industrial, scientific, and military use.

II. Storing them up

IBM also maintains by far the largest library of computer programs in the industry. It contains some 3,275 programs all told, including the remarkable collection of programs of SHARE, an independent organization of users of the large-scale scientific computers, the IBM 704, 709, 7090.

Some of the programs in the library are huge, with up to 120,000 instructions. One such is AUTO-PROMT, a program for generating instructions for cutting three-dimensional parts on numerically controlled machine tools. Others are short subroutines; typical is a program for finding square roots.

Donald C. Cashman, manager of IBM's Data Processing Library Services, estimates that about 725 man-years of programing effort would be required to duplicate the programs in the collection. There is no way to put a value on such a mass of collected "logic"—but original programing can cost from $2 to $20 per instruction.

Fast-growing. The library is a prime example of how business and scientific computer users are taking more advantage of ready-made computer software. Actually, it's more like a warehouse or shipping operation than a place to get books. Currently, it's shipping out programs—decks of cards, mostly—at the rate of 5-million cards a month.

In 1958, the library handled 20,000 requests for programs and documentation—the handbooks that explain the programs; this year Cashman expects to handle 200,000. He's gearing up to ship 80-million punch cards by next year, and thousands of reels of magnetic tape.

IBM's library service is expensive—not to its users, for whom it's free—but to IBM. Its budget is already over $1-million a year.

While it's the largest of its kind in industry—Cashman expects it to contain 6,700 programs by the end of 1962—every other computer manfacturer maintains a similar service. Several of these libraries contain more than 1,000 programs.

Larger computer users groups

	Computer	Name of group	Number of members*	Number of programs and routines
Bendix	G 15	EXCHANGE	180	600
	G 20	User Group	25	***
Burroughs	205	DUO	90	100
	220	CUE	40	100
Control Data	1604	CO-OP	22	130
IBM	702, 705, 7070, 7072, 7074, 7080, 1401	GUIDE	360	600
	704, 709, 7090,	SHARE	210	1800
	1620	User Group	350	60
	650, 1620	HEEP**	35	100
General Electric	225	GET	39	***
Honeywell	800	Users Assn.	30	***
National Cash Register	304	Users Org.	35	***
Philco	2000	TUG		100 plus
Packard Bell	250	Users Group	125	75
RCA	501	Users Org.	48	***
Remington Rand Univac	All Univacs	Users Assn.	300	575
	Univac 1100	USE	100	235
Royal McBee	LGP 30, RPC 4000, 9000	POOL	400	200

*Some groups count corporate memberships, some individual, but in most cases there are no more than two or three members in any group from any one company.

**HEEP is a group specializing in highway engineering problems.

***Recently organized, no data available.

User groups. Computer manufacturers aren't the only source of software. There are 26 or more computer user groups, run by and for computer users (table, page 73), that collect and distribute programs developed by members. Usually, these are only loosely affiliated with computer makers. The first, the Univac Users' Assn., was formed in 1955.

These groups accomplish two main purposes. First, any member gets access to a great deal of programing done by other members, thus saving much duplication. Then, computer programs, no matter how skillfully put together, almost always have some bugs. If several companies or scientific groups use a program, the defects can be found and corrected through the communications service of the user group.

Largest. The largest program collection of any computer user group is that of SHARE, for the IBM 704, 709, and 7090 computers, with 1,800 programs. Most of the programs are scientific, and there is some duplication, but one of the most recent is strictly a business program. It's a huge linear programing program, known as LP-90, that was developed by C-E-I-R, Inc. [BW Nov.12'60,p89] for six oil and chemical companies, using the IBM 7090. It's used to solve both planning and operating problems in the oil and petrochemical industries.

Cross-stimulation. While it's rare that one program fits more than its own originator's needs, it's often helpful in organizing and stimulating ideas for new programs.

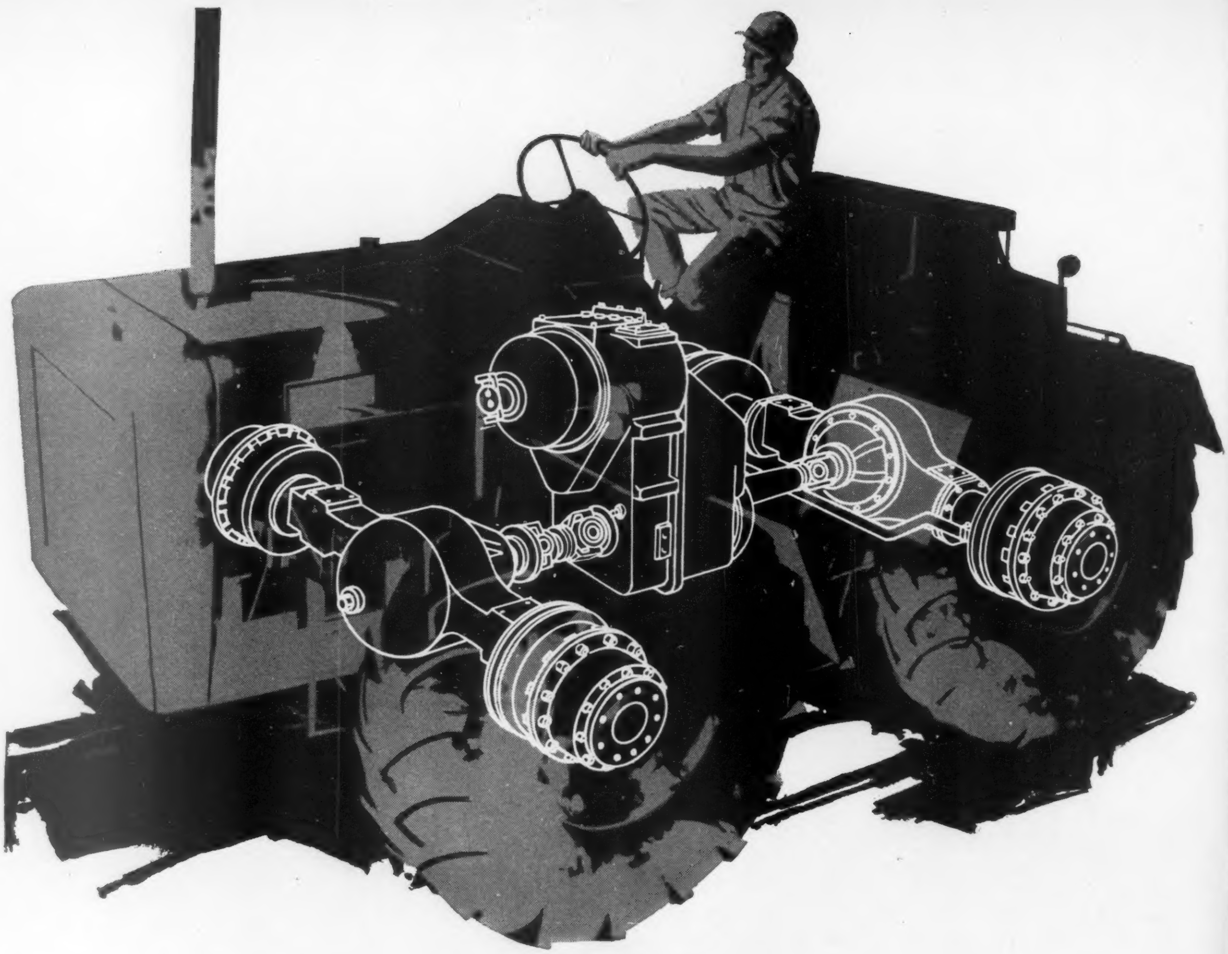
User groups meet, as a rule, from once to four times a year, to iron out documentation standards and discuss new programing ideas. Paul Fedde, of Texas Gas Transmission Co., ex-chairman of Exchange, the user group for the Bendix G-15 computer, tells of one meeting at which a member presented a new routine for converting from decimal to binary numbers. Within a few months, he says, other programers managed to make the routine work 10 times as fast as the original program.

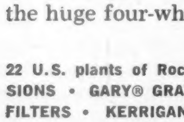
"When a computer is in use," says Fedde, "people find ways of using it that the manufacturer never dreamed of."

Technical societies and manufacturers' organizations are another source of computer programs. Nineteen members of the Aerospace Industries Assn., for example, are working on APT, a program for compiling machine tool instructions for numerically controlled tools [BW Jun.17'61,p80], with IBM sitting in an advisory capacity.

III. What software can do

The computer software in the manufacturers' libraries comes in many forms, but, in general, it falls




DYNAMIC...DIVERSIFIED

into one of three major categories: subroutines, applications programs, and compilers. User group libraries contain both subroutines and applications programs.

The distinction among these various categories is important.

Subroutines are ready-made sets of computer instructions for doing a specific part of a job—finding square roots, say, or establishing a print-out format, or perhaps doing a complex series of repetitive operations, such as sorting data and filing it in proper order in existing lists, such as inventories.

Applications programs are ready-made computer programs that are relatively complete. Some represent general management problems common to all industry, such as linear programing, sales forecasting, scheduling complex projects, and balancing production lines (table, page 75). Other applications programs are more closely tailored to a specific industry—as IBM's SURE program, for customer billing by electric and gas utilities (table, page 78).

Common. Nearly all computer manufacturers have developed a program for PERT, a method of scheduling projects now required on some Navy and Air Force contracts. It is used to figure a schedule of complex engineering, construction, or manufacturing projects by what is known as critical path analysis. This requires setting up a flow chart showing how completion of each part of the project relates to the whole, identifying critical jobs, or those that have to be completed before other steps can be started.

PERT requires calculating a completion date for each action point on the basis of an optimistic, realistic, and pessimistic date—and the program has to be recalculated whenever a critical step gets off predicted schedule. Only a computer can figure it, and the computer program, obviously, is a long and complex one. But with presently available software, computer users can simply order the program from the manufacturer's service library.

Jobs for managers. Such techniques as PERT are having an increasing influence on management methods. Yet it should be clear that merely having the computer do the calculating isn't the main objective. Gathering the information, setting up the systematic production and accounting procedures, estimating costs and times realistically, and deciding which system to use remain very much of a job for intelligent management men.

Not infrequently, success in collecting information in an orderly way, flowcharting it in a logical system, and filling in the gaps revealed by a computer program can do more to improve a company's operation than the succeeding runs of data on the computer.

Specialized. More specialized types of ready-made computer programs, such as those for demand deposit accounting in banks, hospital accounting, and automobile rating for insurance companies, pose a difficult problem. While all companies in an industry have more or less similar general problems and organization, each is completely different in detail. It's almost impossible, for example, to write a program for payroll to fit more than one firm.

Nevertheless, such programs as SURE, the customer billing program for electric or gas utilities, are undoubtedly in the vanguard of a growing number of specific industry-oriented jobs that software will be able to help accomplish economically. IBM estimates that SURE will take care of about 80% of the programing job for the average utility. Those that have used it, such as Brooklyn Union Gas Co., credit it with saving many man-hours and speeding up significantly the process of putting billing on a computer basis.

IBM has recently set up a special school, on the graduate level, to deal exclusively with solution of business and scientific problems. One aim will be to develop systems that will apply

Typical systems programs

For multiproject scheduling	
PERT	Univac I, II; RCA 501; Control Data 1604
Critical Path Method	GE 210, 225; Bendix G-15
LESS	IBM 650, 1401, 1620, 7070
For forecasting	
Sales Forecasting	RCA 501
Financial Model [Predicting balance sheet]	RCA 501
Capital Investment [Comparing alternative investments]	IBM 650, 1620
Limited Information Estimation [Forecasting by multiple linear regression techniques]	IBM 704, 709, 7090
Forecasting by Econometric Methods [Similar to previous but more advanced techniques]	IBM 704, 709, 7090
Nu-Soundex [Analysis of seasonal sales variations]	Univac Solid State
For management functions	
Linear Programming	Bendix G-15; Burroughs 205, 220; General Electric 225 Philco 2000
Sales Analysis	IBM 1620
TAG: Naming Products	RCA 501
Human Resources Package [Cataloging and indexing manpower]	RCA 501
For manufacturing	
Machine Loading [Assigns product manufacture to machine or plant to minimize cost and maximize profit]	IBM 704, 709, 7090
Production Line Balancing [Assigns assembly line jobs so they are completed most efficiently]	IBM 650
Engineering Requirements [Computes engineering needs for manufacturing control]	IBM 709
Management Operating System [Correlates six basic manufacturing functions]	All IBM Random Access Systems
For research and development	
KWIC-Index [Automatically indexes technical articles]	IBM 704
Taxonomy Application [Classifies and sorts qualitative information for scientific research]	IBM 704, 709, 7090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Typical applied programs for specific industry applications

Demand Deposit Accounting [For commercial banks]	GE 210; IBM 1401
Automobile Rating [Codes automobi'es and trucks for insurance companies]	IBM 1401
Welfare Payroll [accounting for government welfare organizations]	IBM 1401
Blue Cross/Blue Shield [Hospitalization accounting]	IBM 1401
County Workshop [Automatic evaluation of property for tax purposes]	IBM 1401
SURE [Customer accounting for gas and electric utilities]	IBM 7074, 7070
Hospital Accounting [Patient, payroll, and inventory accounting]	IBM 305
Traffic Assignment [Analyzes traffic flow. Computes path of highways]	Univac Solid State
Autopromt [Generates instructions for cutting 3-dimensional shapes on numerically controlled machine tools]	IBM 704, 709, 7090
Numerical Control [Generates tape to cut 2-dimensional shapes on numerically controlled tools]	Univac Solid State

to many companies in an industry. GE considers its wide and diversified operations a key to developing software for its Computer Dept.

IV. Writing its own program

All this software, whether for special jobs or a general management system, represents a growing body of skill, conveniently available to business and science. You have to train new accountants, new systems men; but the programs on card and tape will never grow old and forgetful, never retire. Users and manufacturers will improve them constantly.

Another line of development is carrying the process a step further, and attacking the high cost of programing in a somewhat different way. Computer programers have developed systems called assembly programs and compilers that make the computer itself a programer.

Language question. When an instruction finally goes to a computer on tape or punch card, it may have a binary number form like this: 00000101. In decimal numbers that would be "plus 5." Depending on the order in which it is presented to the computer it might mean the command "add," the number of a tape transport, or the number 5. But everything the computer is told to do and all numbers it handles, are eventually expressed in 1's and 0's.

Even for an expert programer, it would be hard to remember that 00000101 is the command for addition, say, 00000011 for multiplying, and so on through dozens of commands. What's more, commands differ from one computer to another.

To get around this problem, programers wrote mnemonic systems, called assemblers. In these, the program is written in a sort of shorthand English, using contractions of such words as "add" or "subtract" or "go to" instead of the numerical code. These are now widely used. The programer still has to write an instruction for every single thing the computer is to do, but he can write some of it in terms comprehensible to him. A special program, called an assembly program, translates the mnemonic symbols into the binary or decimal numbers of the "machine-language" program.

Compilers. Grace Hopper, head of programing for Remington Rand Univac, was one of the first to carry the idea of automatic programing to the next, and present step. Her group developed the first compilers —master programs that enable a computer to write its own program from fairly general instructions.

With a compiler, instead of having to tell a computer all the steps for a division operation, all that's needed is an algebraic notation. That signals the computer to generate a machine-language program for the division operation. A scientist familiar with the notation of FORTRAN—IBM's algebraic compiler—can virtually write his own program, though knowing nothing of the details of machine-language programing.

Special compilers for business programs followed in a hurry. Their vocabulary is limited, the grammar and syntax rigid, but a computer can be programed in familiar words —what some call "programing English."

Computer Esperanto. Soon, the languages began to proliferate. IBM wrote FORTRAN for algebraic languages, Commercial Translator for business. Remington Rand Univac wrote Math-Matic and Flow-Matic for similar uses. Other computer makers joined in.

The Dept. of Defense, which has computers of all brands, decided it could not live with this babel. It set up CODASYL, the Conference on Data Systems Languages, and gave it the job of developing a common language for data processing compilers. The result is COBOL, which stands for Common Business Oriented Language. It's a stylized programing English any computer will have to accept to be eligible for government purchase. So every computer maker is rushing to perfect a COBOL compiler (chart, page 70).

Every type of computer needs its own special compiler. Compiling a program from COBOL takes a lot of computer memory space and a lot of time; its efficiency depends on the skill of its authors. There will be considerable competition among computer makers on both counts.

Man and machine. Some computer programers argue that a compiler can never write as efficient a program as an expert programer. Many scientific computer users reply that the FORTRAN compiler, for example, can write as good a program or better than the average programer, and make fewer mistakes, to boot.

The net result of all this software production is a host of business shortcuts. But even compilers aren't the last step; you still have to state the problem in detail, in algebraic programing or programing English. Some computer men look ahead to the day when you'll have to present the data and the general problem, and the computer will figure out how to find a solution and write a program.

Even if such a super-compiler comes, however, that doesn't mean companies will be run by computers. No matter how skillfully programed, computers should merely provide management with more chances to make decisions, based on better, more timely information. **End**

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Marble's comeback as building material

After near-extinction in the era of modern architecture, marble has adapted to needs for lightness, lower cost, new shapes. Georgia Marble Co. has been a leader

Twenty years ago, with modern design sweeping the building industry, marble was on the verge of disappearing entirely from architecture. But just when it was on the brink of extinction, this beautiful durable stone began making a comeback.

Today the quarries of Georgia Marble Co. (pictures), which claims to be the world's largest producer, are going full-tilt to supply marble for paneling, decorative trim, interiors of lobbies, wainscoting in corridors and around elevator shafts. Despite the industry's continuing difficulties, Georgia Marble's annual sales have climbed from $4.5-million in 1952 to $17.9-million last year.

In the same period, which includes a time of acquisitions as well as of basic growth, earnings rose from $323,500 to $1.9-million. Earnings per share went from $1.62 to $2.32.

Classic material. More than 2,000 years ago, Greek builders chose marble for their public buildings, such as the Parthenon, for the same beauty and durability that make it still a choice material. Yet the modern design trend to lightness and airiness in the 1930s and 1940s seemed to doom it in favor of man-made materials such as metals, glass, and concrete—even plastics.

Even banks no longer had to look like Greco-Roman temples, and so-called classical designs, and, under their prodding, using heavy masonry and thick slabs of marble were thrown into eclipse. "By the 1940s," says Atlanta architect Joseph Amisano, "marble, by and large, was on the way out."

The architects began finding ways to reconcile marble with modern design, and producers such as Georgia Marble Co. experimented with new forms of the stone.

"Marble is a gorgeous material," says Amisano, "wonderfully impervious, with terrific maintenance qualities."

Now, says Georgia Marble's Pres. John W. Dent, "marble, a time-honored material, has finally been demonstrated as fitting properly into the demands of modern architectural design."

Changing industry. Before this happened, though, the industry was in a serious decline and finally had to reorganize. Producers are now down to eight companies. Atlanta-based Georgia Marble itself acquired seven companies since 1952, now operates quarries in Alabama, Tennessee, Virginia, Missouri, and Vermont in addition to its original and largest quarries in North Georgia. It also imports marble.

To meet demands of architects for a wider variety of shapes, thicknesses, color combinations, and textures, and also to answer builders' demands for lower prices and installation costs, Georgia Marble also had to work out some changes in production methods.

New forms of marble. For conventional heavy masonry construction, marble is cut into slabs 3 in. to 6 in. thick. Georgia Marble equipped some of its plants, such as the one at Tate, Ga. (pictures), with saws and finishing machines that turn out marble 1¼ in. to 1½ in. thick, suitable for decorative use.

This actually adds value to the product, since Georgia Marble can charge more per cubic foot of stone. And the builder saves money because he can cover more area with less marble.

The company has adopted another new technique that cuts the building's installed costs. A thin marble (technically, anything under 2 in. thick is "thin") is placed face-down in a mold and backed with a pouring of concrete. The two materials bond firmly, forming a marble-faced panel ready for installation.

Georgia also offers a ⅞-in. marble

Enough marble for 3,000 years at present production rates is at Georgia Marble's North Georgia quarries, such as this one.

Marble is carved out, a layer at a time, by batteries of pneumatic drills, leaving the quarry wall arranged in steps.

Huge pillar is shaped, sized, and polished at Georgia Marble Co.'s stone-finishing shops near Tate, Ga.

Workmen set in place thin decorative strips of marble on facade of new courthouse at Spartanburg, S. C.

With tongs, huge building blocks are horsed around the Tate shop like ice cakes, after trimming and polishing.

strip for office or lobby decor that is thin enough to be translucent in backlighting, highlighting the color of the stone. It saws marble to produce varying textures, and it offers a product called Split-Face, made up of rough-hewn blocks.

Enough experimenting? Despite such innovating, some architects still feel marble producers aren't doing enough basic research.

"They're trying to sell marble," says one architect, "but they won't go out and hire a first-rate designer to explore the possibilities—not just specific applications but basic trends." Architects add that engineering data is also inadequate.

"We've been woefully lacking in developing facts about marble—as a company and as an industry," Georgia Marble Senior Vice-Pres. William L. Vance concedes. "We're trying to remedy this."

Growing volume. An industry source estimates that dollar sales of domestic producers have quadrupled since 1944 to $50-million a year ($200-million a year, installed). It's a growing business, even though marble has lost ground.

"We may not be getting as much of the total market," says Vance, "but the total market is expanding."

Georgia Marble has just finished what is regarded as the largest marble contract in industry history—a $6.5-million contract on the new House Office Building in Washington, which Georgia shared with its chief competitor, Vermont Marble Co. Georgia also recently finished work on the United Insurance Building in Chicago, whose 41-story columns are sheathed in 4-in.-thick marble. **End**

Oilmen look for profit above ground

Real estate ventures lure smaller companies as way out of profit squeeze; one, Christiana, is forsaking oil for residential marina project. Big ones are getting in, too

As it becomes more and more difficult to make a profit from the production of oil, some oilmen are deserting their traditional interest in what lies beneath the ground and are beginning to look at the real estate itself.

This is particularly true in California where, except for a few lucky strikes, the cost of finding and producing on new oil fields has become almost prohibitive, but where land values continue to soar.

Christiana Oil Corp., for example —a small, independent, publicly held company — announced this month plans for a new kind of project, the development of 860 acres of tidal lands along the Pacific (picture) into a luxury residential marina. Besides the land, Christiana bought up some of the producing oil wells on the property, at what Pres. Lewis W. Douglas, Jr. (pictures, right and page 88) admits was a premium price.

Despite its name, however, Christiana bought the wells not because it was interested in the oil production, but to insure that no one will have an oil well in the backyard of his luxury home. It's quite possible that Christiana will simply abandon the wells as the marina develops.

This is not so strange as it appears, since Christiana is already all but completely out of oil production and the oil business. In the summer of 1960 it sold most of its oil properties for $2.9-million (total assets come to more than $11-million), and began betting its future on real estate and land development.

Contagious. Christiana is far from alone in making such a move. Other small petroleum companies—among them Sunset International Petroleum Corp., Coast Exploration Co., Kent Organizations, Inc., and Diversa, Inc.—are also buying up land for real estate purposes, sometimes to supplement their oil interests, sometimes to the exclusion of oil.

The "independents" are the eager ones, because the squeeze on them has been greater. But even some of the larger companies are looking at their fee properties (where they own the land as well as the mineral rights) with a new interest in their real estate potential. Majors moving or looking into development projects include Union Oil Co. of California, Signal Oil & Gas Co., Humble Oil & Refining Co., and Standard Oil Co. of California.

Movie lead. The oil industry's move into real estate follows a similar ploy by another glamor industry, the motion picture makers. Some of the film makers' deals, however, involve outright sale of company property—with leaseback arrangements for part of it for studio use—rather than its development by the film company.

Twentieth Century-Fox Film Corp., for example, sold its 260-acre plot in West Los Angeles for $43-million to a joint venture of Aluminum Co. of America and Webb & Knapp, Inc. [BW Apr.22'61,p123] for development of a $500-million Century City. Fox leased back 80 acres and is still making movies there, but has the option after five years to embark on a commercial development.

Out of a squeeze. For the smaller oil companies, the move to real estate often is prompted by the need to find the profits no longer available from oil production.

John Knudsen, Jr., president of Kent, points to a "tremendous change" in the oil industry in recent years. Even if an independent finds a new oil field now, he says, "you can't make any money from it." Pres. Louis W. Erlich of Coast Exploration says the production schedules set up by the states make it very hard for a small company to arrive at a satisfactory yield.

Pres. Morton A. Sterling of Sunset notes it's now difficult to acquire a proved property at a reasonable

From oil wells to residential marina is plan for these Pacific lands and company of Lewis W. Douglas, Jr. (left).

Pres. Douglas studies plans to turn barren acres into luxury homes and marina.

price. Christiana, too, ran into difficulty in purchasing properties.

A natural. For all these reasons, small oil companies began to realize they would have to diversify to keep the black ink on the books. Real estate and land development looked like a natural for them.

Oil development and real estate development are blood relatives, says Coast's Erlich, for both are essentially speculative deals.

Homes on the water. Though the companies are delving into real estate for similar reasons, they plan quite different developments.

Christiana, when it sold off oil holdings, first bought 91% of Arizona Title Guarantee & Trust Co., then switched this for 20% of the stock of the larger, faster-growing First American Title Insurance & Trust Co. in Orange County, Calif.

Then it began negotiating with developers who had made a downpayment on acreage it wanted in Huntington Beach for the marina project. Christiana and the developers set up Huntington Harbour Corp., a subsidiary of Christiana. Christiana made the $3-million final payment, got 80% of the stock; the developers got the other 20% in Huntington, plus 350,000 shares in Christiana.

The huge residential marina project is the first of its kind in the Los Angeles area since the 1930s. And it's likely to be the last, for the simple reason, says Pres. Douglas, that property just isn't available.

The plan of William L. Pereira & Associates calls for 641 acres of land and 246 acres of waterway that will divide the tract into islands and peninsulas to provide water frontage (18 mi. of it) for as many homes as possible. The terraced interior will provide water views. Lots will range from $10,000 to $40,000, depending on location; about 100 should be ready for builders by next March (at first, Christiana will sell off lots to custom builders).

Varied aims. Sunset International, an oil development company with 1960 assets of $48-million, frankly admitted when it went into real estate that one big motive was to use up some of the $3.5-million in intangible write-offs it had been building up [BW Sep.17'60,p116]. Sunset continues its oil activity, at a slower rate, while it proceeds with residential projects at Los Angeles, Sacramento, and San Diego.

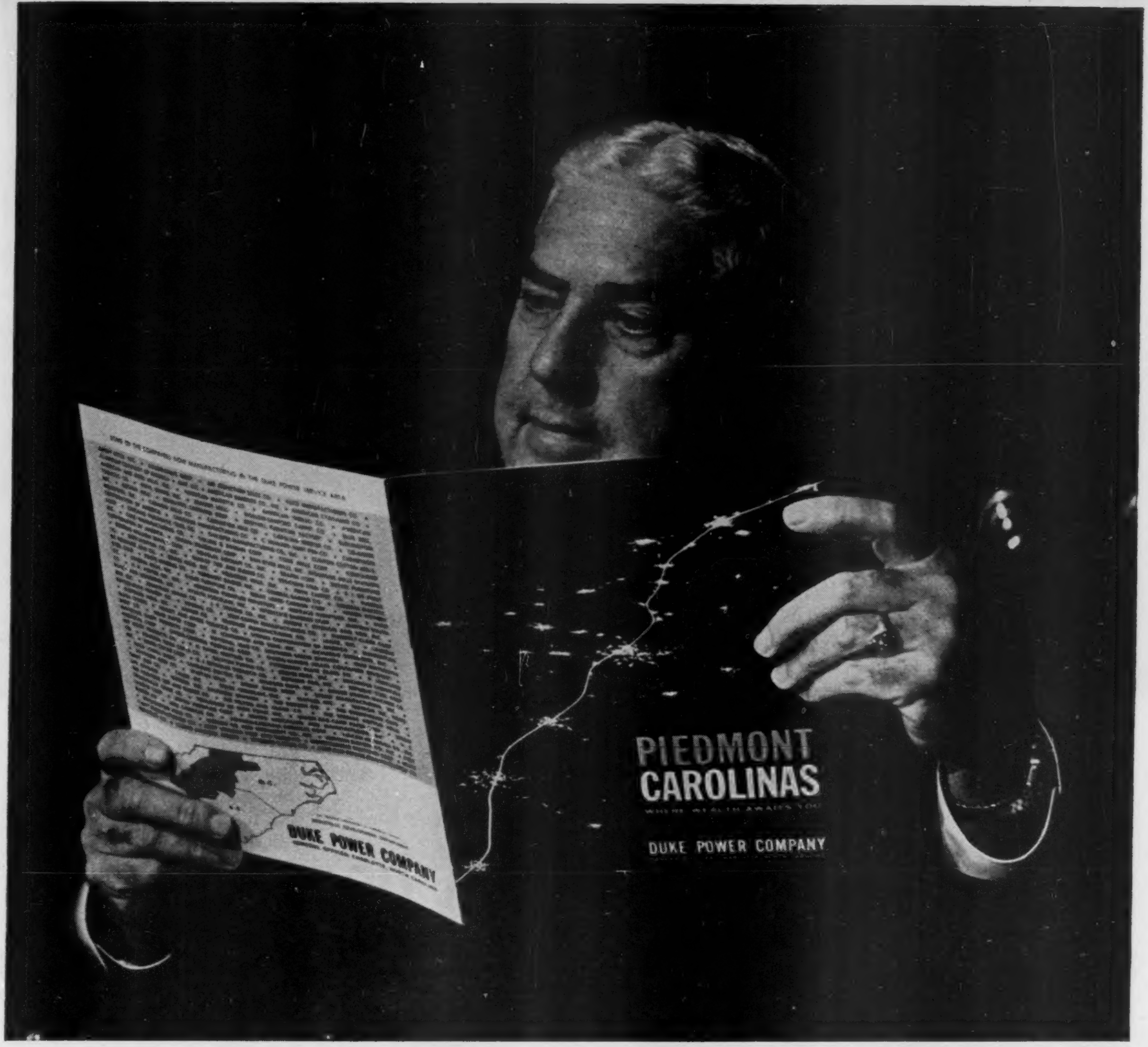
Coast Exploration—with assets over $5-million—acquired 320 acres in Tempe, outside of Phoenix, sold the residential acreage for $1.17-million, and is considering whether to sell the industrial and commercial acreage for capital gain or build. In oil, Coast goes in for wildcatting.

Kent Organizations, originally a drilling, exploration, and oil producing company, has decided the oil business is "not for us." It, too, is active in Arizona, with a lease on 326 acres north of Phoenix; but it plans to splurge soon with a golf course, a mobile home park, a motel.

Dallas-based Diversa, Inc., is drawing on its cash flow—$4.7-million last year—for California real estate ventures. It has 14,000 acres at Santa Susana, where it may go into construction, 450 acres at Ontario, where it has a limited partnership arrangement with a builder.

Majors. The "majors" are getting in the game, too, but here it's mainly a matter of cashing in on long-held properties. Union Oil is selling surface rights to about 3,000 acres near Vandenberg Air Force Base to Vandenberg Village Development Co., and having a plan drawn for 4,000 acres near Los Angeles. Union is retaining mineral rights, however.

Humble Oil, though it has not announced specific plans, is creating a stir over possible industrial or residential use of a 35,000-plus-acre tract near Houston, which has some producing wells. Signal Oil & Gas has let a master lease to developer Frank H. Ayres & Son for 400 coast lots in Newport Beach, Calif.; 172 cottages are already completed. Standard of California is considering the sale, lease, or development of fee lands for industrial, commercial, or residential use; it has sold or leased thousands of unneeded acres for commercial or farm purposes. **End**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Gold-suited attendant is one of distinguishing marks of Continental Air Lines, regional trunk with enviable profit record

TRANSPORTATION

Airline thrives on split personality

Continental Air Lines is tiny compared to the bigger trunks. Yet it has a knack for rolling up impressive profits with lush service, behind-the-scenes austerity

Continental Air Lines, Inc.—a regional trunk line serving Los Angeles from Chicago, Kansas City, Denver, and Houston—has a split personality: To its customers it presents a front of luxury and opulence, complete with gold carpets, gold-suited field attendants, and an abundance of champagne and French pastries; behind the scenes there is a cost-conscious, Spartan plainness that even extends to holes in the hall of the corporate offices located in a repair hangar at Denver's Stapleton Airfield.

Steady profits. But Continental has managed to make its odd personality pay off handsomely on the ledger books. In the volatile air transport industry, Conair has racked up an operating profit every year but one (1941) since its founding 26 years ago, has had a net loss only twice. Even this year—the industry's worst since 1947 when the domestic trunk lines have reported a net loss for the first six months of $13.6-million—Continental reports a half-year profit of $542,000, up some 5% from the same period in 1960.

This performance is all the more impressive considering Continental ranks 10th in size of the country's 11 domestic trunk airlines and does only 3% of the total trunk line business.

Fewer trunks. For years, small trunk lines have had trouble surviving. Just 10 years ago there were 16 domestic trunks; since then Chicago & Southern, Colonial, Mid-Continent, and Inland—four of the six smallest in 1951—have disappeared. Earlier this year, Capital went off the map [BW Apr.8'61,p30], and many airline officials expect at least one more to follow it soon. Today, the four big trunks, United, American, TWA, and Eastern, log 69.5% of the total passenger miles flown by all 11 lines.

Traditionally, small lines have had financing difficulties. In addition, passengers living outside their route areas just don't know about the connecting services offered by the smaller lines. This latter problem has been intensified lately by the jets flying over the old "gateway cities." Continental, for instance, picks up business at Chicago from the East. A year ago there were only six flights a day offering one-plane jet service from northeastern cities (exclusive of New York and Washington) straight to Los Angeles; in May of this year there were 21 such flights.

Continental is important among

domestic trunk airlines because it not only has been able to live with its small size, but also made the most of it. Indeed, doubters in the industry wonder if Conair will be quite so profitable when it gets bigger, as inevitably it must.

Superior service. Because Continental has huge jets and relatively fewer passengers to fill them, it can and does provide better in-flight service to each customer. People knowing this go out of their way to fly Continental. But too many customers—and Continental runs into danger of being just another airline.

Because Conair's route structure is simple contrasted with those of the Big Four, scheduling of airplanes is relatively easy. Its jets are in the air a phenomenally large part of every day, though a simple route map is decidedly not the only reason. Still, more cities, more routes, and more jets could destroy this high aircraft utilization and the profits it brings.

Continental, which has learned to live with its small size, may well learn to live as a giant. But it won't be the same airline.

I. Profitable utilization

Conair's answer to the problems of survival as a small trunk comes from its two-sided personality. The flashy showmanship is the line's way of getting customers away from its bigger and better known competitors (on its important Chicago-L.A. route, it battles United, American, and TWA). The profit comes from a tight control on costs of all kinds.

The concrete block simplicity of the corporate offices is one way of holding down overhead. Tight reins on hiring is another: Conair's total payroll works out to \$2.08 per 100 passenger miles; for the four big lines, it's about \$2.90.

High utilization. But the biggest single element in keeping costs down is CAL's strict policy of keeping its jets in the air.

The line owns five Boeing 707s, which now are averaging better than 13 hours a day in the air (that's more than two hours more than the

Contrast between Continental Air Line's image in flight and on ground is striking. Its passengers are treated lavishly—to French pastries and champagne. But economy is the watchword at line's functional Denver offices.

closest 707 user). Soon, one of its planes will be the first commercial jet to log 10,000 hours. That unusually high utilization rate lets Conair break even with only 37% of its available jet seats filled—the lowest break-even load factor in the industry by some eight or 10 percentage points.

One reason Continental gets so much use from its jets is its scheduling policy. The line will run a flight whenever it can more than meet its out-of-pocket costs. This means often that it is scheduling flights at odd hours simply because the plane is available then.

Continuous maintenance. Conair's maintenance policy is as vital to the high utilization record as the scheduling. All other airlines take their jets out of service periodically for long (usually five-day) overhauls. But Conair instead uses what it dubs a "continuous maintenance" policy—each jet is worked on for 13 hours every fifth day. In that time, inspections are made, and worn parts taken off and replaced with spares. This way, the plane can be flying while the time-consuming work of engine or landing gear overhaul goes on in the shops.

This means that Continental has to keep on hand a bigger store of components than it would with conventional maintenance, but officials insist that the income from those extra flying hours by far exceeds the cost of the additional inventory. CAL bought the Boeings in the first place because they were designed so that any part can be replaced in 8 hr. The line says that it simply couldn't afford to fly the jets if it weren't for the little downtime the continuous maintenance approach allows.

II. Service and splash

The tight cost control at Continental is the province of Executive Vice-President Harding L. Lawrence, former sales vice-president who has been top administrative officer since McKinsey & Co., Inc., reorganized the line's management structure in mid-1959. (Essentially, this was done, says Lawrence, to separate the "planners" and the "doers.") But the other part of Conair's personality—the bazazz, the showmanship, the flair—is really a reflection of Pres. Robert F. Six, who for 23 years has been head of the company.

Six himself is a colorful person. He mixes with show business personalities, and claims to be the first airline president to have flown at twice the speed of sound. When Colorado celebrated the centennial of the gold rush two years ago, he organized the Six Guns, a team of CAL executives who were also fast draw experts.

Business philosophy. But the applications of this showmanship to Continental reflects good business sense. As one official of the line says: "Basically your planes are the same, the flight times are the same, the fares are the same—all you have to sell is service." The gold coveralls on the safety men who wave the plane into position, the extra-wide gangplank stairs, the champagne and French pastry all help to give the small line an individual identity. (Conair has a bulging file of letters testifying to the fact that many customers pick the line for coach flights because it will sell them liquor while competitive lines won't.)

Double benefit. Actually, a lot of the Conair's extra service for passengers also brings cost savings. The procedure in meeting an arriving jet, for instance, gets first-class passengers off the plane and walking down the gold carpet in less than a minute. In addition, the plane is ready to take off again sooner, which adds up to more revenue-producing in-the-air minutes. One example of this ground crew efficiency: One jet this summer left Houston 1 hr. 7 min. late, but picked up enough time on its three intermediate stops to arrive in Los Angeles 6 min. ahead of schedule.

One of the line's "extras" is its Director of Passenger Services—a special employee on every jet flight who collects or writes tickets during flight. (Passengers holding reservations don't have to buy their tickets ahead of time.) On the plane's own radio telephone, the DPS reserves autos and hotel rooms for passengers, gets information on gates and schedule changes of connecting flights. If the plane can't make its scheduled destination, he has authority to arrange and pay for food, lodging, and transportation for the passengers wherever the flight sets down, without additional approvals. Actually, the DPS saves Conair money—his pay is less than that of the airport ticket agents who would have to be on hand to check in passengers.

Splashy ads. Conair is lavish in its advertising, too, both to put it in the big airline league and to put across the luxury-service image. The $2.35-million the line spent on advertising last year ranks Continental seventh in such expenditures, ahead of the bigger Capital, Braniff, National, and Western. In the city of Chicago, Continental outspends its three rivals. The ad money goes for big splashy layouts with lots of gold ink; the line was the first to use—and still depends heavily on—two-page four-color newspaper spreads.

III. Advantage of smallness

Besides finding ways to get around its smallness, Continental at times manages to turn it to good advantage. Theoretically, a smaller company is more flexible than its bigger competitors, can react more quickly to changing situations. At Conair, the theory is fact; one example: When passenger traffic this summer didn't come up to expectations, officials decided to cut back the schedule. That decision was made on July 20; the new schedule, with an 8% reduction in seat miles, was filed with the Civil Aeronautics Board within a week, went into effect Aug. 6.

Camaraderie. Conair also seems to profit from the personal, club-like feeling impossible in a larger airline. All stewardesses, for instance, are interviewed by the vice-president of customer services before they are hired. Lawrence is fond of mentioning "3,000 dedicated people working for this airline."

Largely because of this spirit, the jet-liner shot up in the Texas hijacking attempt last month was ready to fly back to the repair hangar in Los Angeles 27 hr. after the incident, and back in regular service in three days.

Continental makes a good bit, too, of its "cockpit discipline"—the set procedures and decisions the crews make. Often "smart flying" can shave time on a particular route—can cut, say, 12 min. off the Los Angeles-Denver run. The 12 min. saved means a saving of about $50 in fuel costs.

How does Conair keep its crews on their toes? "First of all," says Don Wilson, vice-president in charge of flight operations, "we're still a small enough airline so that we have personal contact with the flight crew." (One advantage of this contact is that CAL can spot trouble spots early; the line decided when jets were added to the fleet that all three men in their cockpit should be pilots, thus avoiding the later trouble with the flight engineers.) Wilson realizes, though, that as the line—and the number of employees—grows, "we'll lose some of the facility we have in dealing with the pilots."

Growth plans. Nonetheless, the line will grow. Just this summer, Six was saying that Continental had no intentions of expanding east of Chicago. Now the line has applied for the Chicago-Cleveland-New York, Cleveland-Philadelphia, and Detroit-Philadelphia runs (routes the

CAB has opened for bids because the Capital linkup with United has eliminated effective competition). Conair also has high hopes of getting authorization for the Houston-Dallas and San Antonio-Dallas runs and at the same time getting rid of a parcel of unprofitable cities it picked up in its 1955 merger with Pioneer Airlines. The estimate is that losing the small cities will add about $600,000 to the line's operating profit.

Need for trunks. For the present, Conair sees itself surviving as a regional trunk line. Even if it gets the east-of-Chicago routes, they will be essentially regional service in the northeastern quadrant of the country. The Atlantic-Pacific nonstop business, it is content to leave to the bigger trunk lines now in the field.

Management reasoning runs like this: The airline business benefits from competition; there's no need for more carriers on the coast-to-coast hauls, therefore there's a need for strong regional trunks to provide this competition. An intimate knowledge of the area the regional lines serve, says Lawrence, gives them a distinct advantage in competing with the nationwide lines.

Besides, Conair will insist, the smaller lines are more likely to experiment with new ideas. Continental takes the credit for introducing the luxury coach, for being early with radar-equipped planes, for starting the continuous maintenance technique (which it still thinks other airlines will eventually adopt). And Six and Lawrence are determined that CAL will continue to come up with jazzy and/or cost-saving innovations.

President of Conair is Robert F. Six, who shows flair for showmanship.

In 1955, chronically empty seats (above) forced owner Martin Haske to sell his Syracuse Chiefs franchise in baseball's International League.

In 1961, the Chiefs, reborn with 1,000 local stockholders, drew well under skilled, aggressive direction of Don Labbruzzo, despite last-place finish.

ENTERTAINMENT

The community backs its team

The enthusiasm generated by wide local ownership of the Syracuse Chiefs brings Triple A baseball back to a city where it seemed doomed by turnstile anemia

Six years ago, when Business Week printed a story titled "Spectator Sports Lose Out," minor league baseball seemed very near death [BW Oct.15'55,p136]. Not long after Martin Haske, owner of the Syracuse Chiefs, posed symbolically in his empty stadium (picture, left), he threw in the sponge and sold his International League franchise to Miami.

This summer, the Chiefs were alive again, back in the Triple A International League, and showing a modest profit. In the picture at the right, Don Labbruzzo, the new general manager, contentedly surveys one of the healthy crowds the team drew during the just completed season—despite a last-place finish.

The old Chiefs had been one more spectator-sport victim of the changed pattern of U. S. living, with consumers flocking to the workshop, the garden, bowling, and hunting. Minor league baseball, along with hockey, basketball, and boxing, took a dreadful beating; to a considerable extent they are still taking it. Even major league baseball felt the pinch for a while to a lesser degree, and only professional football has inexplicably managed to reverse the stay-at-home trend completely.

Second failure. For a long time after the Chiefs' franchise was sold, it looked as if Syracuse would have to accept life without baseball, though the city was locally touted as "a good sports town" and it had been a bellwether of the high minors. Soon after Haske sold out, the city had a year-and-a-half try with a club in the lower-ranking Eastern League. But that club folded in mid-season amid the moans of creditors and holders of season tickets.

The clouds were still black last winter when Don Labbruzzo, who had handled publicity for the old Chiefs, came back to town with a very active bee in his bonnet. He was convinced that a widely held community ball team could make money, unlike one that was individually owned.

Labbruzo had been introduced to community-owned baseball at Columbus, where he went as assistant general manager after he left Syracuse. Then he took over a somewhat moribund community-owned club in Buffalo. As general manager of the Bisons, his vigorous promotion and shrewd deals quickly restored financial order.

Last winter, when Labbruzzo came back to Syracuse, he was wholly sold on the efficacy of community ownership—but no one else in town seemed to agree. First he tried to interest the Chamber of

Commerce, but met a very tepid reception. Plenty of the Chamber members were still aching from the financial buffeting of earlier baseball ventures, and they thought one more failure would give the city a permanent black eye.

Mayor helps. Undiscouraged, Labbruzzo went to sports-minded Mayor Anthony Henninger. Henninger was convinced, and rallied together a few loyal friends in the business community. Labbruzzo was on his way; the Community Baseball Club of Central New York, Inc., was formed, with realtor Donald Potter as the tireless chairman of the board.

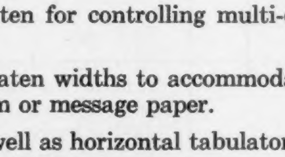
The going was still rough, but the handful of pioneers finally cajoled or dragooned something like 1,000 often reluctant citizens to buy up the 4,000 shares of $10 stock. With that capital, Labbruzzo went to work. For $50,000—only $5,000 in cash—he picked up the Montreal franchise in the International League, cut loose by the parent Los Angeles Dodgers. (This year's profits are expected to permit paying off another $5,000.) He also got the contracts of nine players.

Right at the start another difficulty cropped up. Local suppliers, burnt by the earlier baseball ventures, refused credit. That roadblock was leveled when Frank Barry, parking lot owner and oil executive, personally guaranteed any debts the club incurred for its first six weeks.

Next step was to lease the 8,500-seat municipal stadium on a relatively painless sliding rental, that calls for 4% of gross receipts between a minimum annual payment of $3,500 and a maximum of $8,000. This year the Chiefs grossed $324,000 and cheerfully paid the maximum.

Aid from majors. Another long leg up for Labbruzzo came from the Players Development Fund, set up by the major leagues to help offset the losses suffered by the minors from the televising of big league games. Under the complex PDF formula, the Chiefs were assured of $20,000 this year, with indeterminate amounts in the future.

As part of this deal, Syracuse became a farm club of the Minnesota Twins in the American League, who provided the club with some players. Of course, the Twins can always snatch back their farm hands; indeed, they all but wrecked the Chiefs this summer by recalling several stars. But for each Syracuse player whose contract belongs to the Twins, the Minnesota club must pay all salary above $900 a year. As a special concession just for this year, the Twins also agreed to reimburse the Chiefs



for three players the Syracuse Club bought independently, and to pay the above-$900 part of their salaries. The contracts of the three became the property of the Twins, who called up two of the players—Pitcher Al Schroll and infielder Ted Lepcio—in mid-season. The Minnesota club also paid the spring training costs of the Chiefs.

Thus, for this year, Labbruzzo had a rather modest payroll to meet. Later, it will get much stiffer, especially if he succeeds in developing some hot players of his own. But this could be balanced by potential sales of these players to the majors.

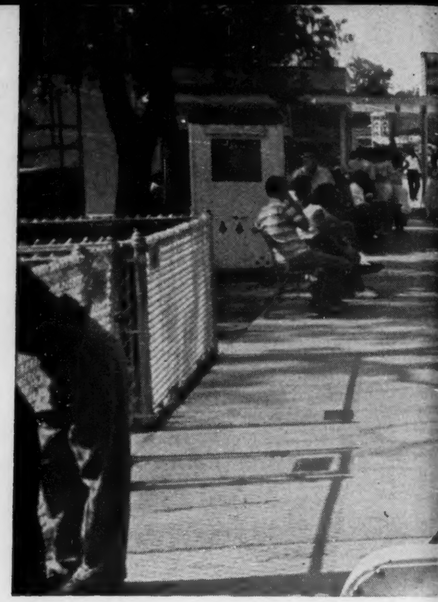
On the field, the Chiefs did nothing sensational this year, finishing last with a team weakened by the drafting by the Twins, which was only partly canceled out by players lent by other major league chains to the Chiefs. One of these, the Yankees' Frank Leja, turned out to be a leading International League homerun hitter who helped keep the turnstile spinning.

Ballyhoo. That spinning was given lots of other zip by Labbruzzo's energetic promotions. He's a great believer in special "nights" and other razzle-dazzle. On Pony Night, when the club was giving away a bicycle, toys, and the small nag, telephone salesmen dialed so zestfully that they sold 16,000 tickets to the 8,500-seat park. This meant bedlam, and the roping off of a big hunk of outfield for standees, but the night grossed a useful $13,000—enough money to make the numerous stockholders forget quite a few ground-rule two base hits on popflies.

Attendance for the whole season reached a gratifying 127,000 paid, to which could be added about 18,000 non-paying Little Leaguers and others with passes. Paid admissions in the fatal year of 1955 had been only 85,000.

Right now, the Chiefs' directors are beaming at their $5,000 profit for the year, and wondering whether it won't be possible to pay a small dividend when they meet Oct. 26. What's more, business leaders figure that the existence of the new Chiefs has brought about $500,000 in new business to Syracuse. A market study has shown that the club drew fans from as far as 100 miles away.

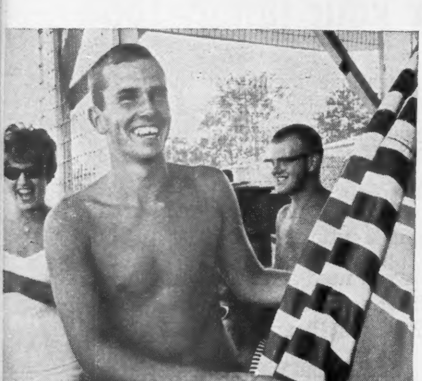
All this is made possible, says Labbruzzo, because of community pride in the ball club it owns. He calls his stockholders "the club's 1,000 salesmen." The general manager also drummed up a lot of sympathy for his last-place outfit by denouncing the way the "vultures of the majors" snatched players away from "our" team. **End**



Cadillac ride featuring models of the 1910 Cadillac is one of amusement park's most popular attractions. Winding, dipping course recalls roads of bygone era.

Midwest resort revives

Ohio's Cedar Point shows how imaginative management is making playlands pay off



Beach umbrella stand and gift shop are run by two other enterprising members of the Roose family, son Bill above clad in working togs, and Mrs. Roose.

During the first three decades of this century Cedar Point, Ohio, was one of the most popular resorts in the Midwest. Millions of Americans visited the playland, nestled on a peninsula projecting seven miles into Lake Erie; it represented the last word in vacation-time facilities.

Starting in the 1930s, however, the resort underwent a steady decline, until just a few years ago it seemed to be headed toward possible bankruptcy.

This year, Cedar Point is enjoying a spectacular renaissance credited to a combination of new capital, shrewd management, and imaginative promotion. The 400-acre playland will set a new all-time attendance mark of over 1.5-million by the end of this month and will turn in a record gross of $3.5-million.

Not alone. Cedar Point is not alone in its new lease on life. All across the country, resorts and

George Roose (right), president of Cedar Point, and manager E. R. "Doc" Lemmon beam at midway they brought to life

amusement parks that had been lagging in attendance are reporting new popularity and bigger profits. New York's Freedomland, which lost money last year, expects to break even this year and show a profit of $2.5-million in 1962. Pleasure Island near Boston, reorganized last year, reports a 10% rise in attendance this year and a 100% rise in profits.

A major new amusement park opened in Dallas this year, Six Flags Over Texas, says attendance has exceeded expectations. At Marineland of the Pacific near Los Angeles, total gross income is more than double its 1957 figure. And Disneyland continues to set the pace in income and attendance. Five-million visitors are expected this year.

As Cedar Point's comeback indicates, these success stories are mainly the result of some imaginative thinking by resort and amusement park operators about the intricacies of their business.

I. View from above

The man behind Cedar Point's resurgence is surprisingly enough a soft-spoken Toledo bond dealer in his sixties without any previous experience in the resort business. George A. Roose (picture), president of Roose & Co., dealers in municipal bonds, is also president of Cedar Point, Inc., a company he and a handful of astute businessmen organized to take over and revitalize the declining resort.

Roose's unusual involvement in Cedar Point stems from a couple of coincidences. The first was an interest in real estate as a business sideline. The second was Roose's habit

Small-boat marina, one of Roose's first additions to Cedar Point, has been a key to the resort's huge growth. It has accommodated as many as 1,200 boats.

Public beach attracts thousands of bathers. It is said to be one of the finest fresh water beaches in the world, with miles of pure sand sloping gently into Lake Erie.

of commuting between Toledo and Cleveland via his own plane.

"Down through the years," he says, "I had flown over Cedar Point 1,500 times or more, and I began to envision it as a choice piece of land that would make a perfect place for a residential development."

Glorious past. When Roose's cockpit view of Cedar Point first began to intrigue him in 1956, the resort near Sandusky was only a shadow of its former self. Purchased in 1897 by the master showman G. A. Boeckling, the area was to become famous throughout the country as the result of his energy and promotional genius. Boeckling built the ornate 1,000-room Breaker Hotel, a huge theater, and one of the country's largest ballrooms.

Until Boeckling's death in 1931, Cedar Point remained a top moneymaker. But after 1931, it began a slow decline for lack of farsighted aggressive direction and failure to keep the facilities in top-notch condition.

Roadblock. Roose's plans to convert Cedar Point into an exclusive residential development ran into trouble from the start. When he and Emile Legros, a Cleveland investment banker, began negotiating with Boeckling's heirs and trustees under his will for a controlling interest in the resort, there was a storm of public protest. To save the area for public use, the Ohio legislature even began talking about turning it into a state park.

Meanwhile, fearing that the general furor might scotch the deal, Roose and Legros took another look at the resort business and decided they could make a go of it. They promised to preserve the public beach and amusement area.

In February, 1957, they acquired controlling interest in Cedar Point for $313,000. This was considered a reasonable sum at the time, but just two years later the Cleveland Real Estate Board appraised the Cedar Point holdings at $6.6-million.

II. Face-lifting program

When Roose and his associates acquired Cedar Point, it was under lease to another operator. So during the entire 1958 season, Roose stayed at the resort studying every aspect of its operation, and planning and initiating work on needed changes.

"After the 1958 season," says Roose, "we felt that the place was so run down that it would have to have a major face-lifting—and fast—if it were to be saved."

In January, 1959, Roose's company took over active control of Cedar Point. One of the first moves was to approach Cleveland Trust Co. for a $1-million loan. At first the bank balked at lending that much money for a declining amusement-resort operation run by men totally unfamiliar with the field. But after four months of talks, it finally agreed.

Elbow grease. The company then set to work. In 1959, its first year of operation, it poured $1.2-million into a major face-lifting program—including partial refurnishing of the Breaker Hotel, a spanking new marina, new midway attractions, and completion of a new $600,000 causeway that opened in 1957.

The causeway has been a real boon to the resort's continued growth. It replaced a narrow bottleneck road that made car travel to the resort slow and hectic. It is operated as a private toll road, with the 50¢-per-car charge going to amortize the cost.

Of all the improvements begun that first year, Roose is probably proudest of the small boat marina. With dock space for 800 to 1,200 boats, the $700,000 marina is one of the finest on Lake Erie.

In 1960, the company went back to Cleveland Trust, armed with a comprehensive technical-economic analysis of Cedar Point and its potentials by Marco Engineering Co., Inc., of Los Angeles. It asked for and got another $900,000 loan.

The Marco consultants outlined a long-range improvement program, which Roose's company accepted. Last year Cedar Point received a sparkling new midway half a mile long, new midway attractions, and best of all, a $200,000 river boat ride through the natural lagoon area on the point.

Meanwhile, as word of the face-lifting has spread, attendance has been shooting up—from 977,000 in 1959, to 1.2-million in 1960 and more than 1.5-million this season—with a gross income of $3.5-million.

Looking ahead. Roose and his associates are looking ahead. Last February they hired as their general manager one of the top men in the business, E. R. "Doc" Lemmon, former director of operations of Disneyland. The Breakers Hotel is being converted into a modern resort hotel with all conveniences from air conditioning to TV. And already on order are a ski lift to carry passengers along the midway, and a massive new skywheel.

Roose himself hopes now to spend more time back in Toledo. "This job at the park has been fascinating," he says. "But after all those years in the bond business, I just hate to get my hand out of it." **End**

Retreat on shorter hours

Stiff opposition from management is one of prime reasons why most labor leaders are dropping their demands for cut in work week with no reduction in pay

You will still hear about the shorter work week as a union bargaining demand, but for now it is dead as a practical issue.

Labor theorists still urge reduced hours with no cut in weekly pay as a panacea for unemployment and the problems of automation. But labor pragmatists recognize that unions can't win on this now. Their advice to shelve the issue has been taken.

This is a sharp reversal of labor's determination earlier to make the shorter work week a fighting demand this year and on into the 1960s [BW May6'61,p90].

Why the retreat? There are a number of reasons for the change:

- Perhaps most important, employers concerned about high-rising labor costs made clear this year that any demand for a cut in hours without a corresponding cut in pay would be a fighting issue. Labor's soundings have so far found no vulnerable point in employer ranks on this issue.
- Although unemployment remains high, and a problem, it is not so critical as it was early this year; improving conditions have taken some of the urgency out of the shorter work week demand.
- The Kennedy Administration is clearly on record against union efforts to cut the work week. Pres. Kennedy expressed his personal opposition to such a campaign when he said: "I am hopeful that we can have employment high five days a week, and 40 hours, which is traditional in this country, and which is necessary if we are going to continue economic growth . . . I would be opposed to any arbitrary reduction of the work week." Unions aren't willing to undertake any big fight today with the President on the other side.

So, after considerable talk and some maneuvering, the campaign for the shorter work week has been dropped—or at least delayed.

'Unobtainable.' Two major meatpacking unions conceded this a week ago. They dropped formal demands for a cut in the work week when negotiations in their industry got down to brass tacks.

"Under present circumstances, a shorter work week is unobtainable," announced Russell E. Dresser (picture), a vice-president of the Amalgamated Meat Cutters & Butcher Workmen and director of its Packinghouse Div. Speaking with unusual frankness for a labor leader involved in the clinching stage of contract talks, Dresser said that the shorter work week couldn't be won and had been dropped as a demand.

Ralph Helstein, president of the United Packinghouse, Food & Allied Workers, refused to be quoted that bluntly. He clung to a position that he had been holding for six months. Reduced hours would be the best possible way to relieve widespread technological displacements of workers, he said, not only for the meatpacking industry but for the country as a whole.

But it was no secret in Chicago last week that UPW very quietly had put aside its "prime demand" for a shorter work week and was pressing for other, more realistic demands [BW Sep.16'61,p99].

The Detroit story. Much the same thing has happened in other negotiations this year—earlier in the nonferrous industry, particularly in Mine, Mill & Smelter Workers contract talks, and most recently in Detroit. Although the shorter work week was talked about militantly as an issue, nobody really showed any willingness to fight for it.

Russell Dresser, of Amalgamated Meat Cutters, said union dropped demand for shorter hours that couldn't be won.

In April, a "progressive" wing of the United Auto Workers demanded that UAW press this year for 30 hours' work at 40 hours' pay. Walter P. Reuther, president of the auto union, successfully blocked the group's pressures at a special bargaining convention in April. He conceded that a shorter work week appears inevitable "if we are going to meet problems of automation and unemployment," but he would not commit UAW to a difficult fight for reduced hours this year.

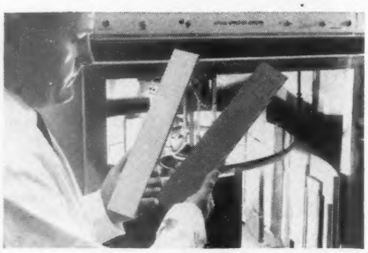
Nevertheless, he told delegates, his recommended flexible program of "bold new concepts" in bargaining would certainly permit the introduction of demands for a shorter work week, in the interests of more job security for auto workers.

Perhaps a demand for reduced hours did come up in the broad preliminary discussions with General Motors Corp. and other auto manufacturers. One negotiator commented a few days ago that "everything was discussed, including the outlook for the Detroit Tigers." But UAW did not make it an issue.

Local concurrence. The hotbed of "progressive" action in UAW long

HOW INDUSTRY CUTS COSTS WIT

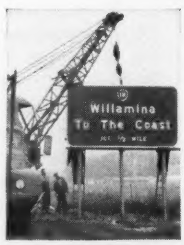
Here are five examples of how profit-minded management is using fir plywood to improve products, speed construction, streamline handling, cut maintenance and operating costs.



From plywood research, a new tough-surfaced colorfast panel

Acrylic overlaid fir plywood, newest product of research in plywood surface treatments, is standard Exterior fir plywood, to which a resin-impregnated, pigmented fiber overlay is heat and pressure bonded in the factory. We bring it to the attention of executives and designers interested in matching problems with properties. The new product has a tough, smooth, colorfast finish, almost impervious to weather, resistant to industrial chemicals and fumes, and practically maintenance-free. It has, also, the advantages traditionally associated with fir plywood—strength, impact resistance, economy and large size. It is so far available in four colors: red, white, green and blue.

One obvious application is as siding, on homes as well as on large buildings like the new Portland (Oregon) Coliseum, pictured below. Acrylic plywood was specified for the 22-ft.-high fascia that crowns the structure with a decisive strip of gleaming white. The panels needed no paint and were easily, quickly applied. The only maintenance required is an occasional wash job by the window-washing crew.



Another logical, growing use for acrylic overlaid plywood is for highway signing. Highway engineers call it the most nearly ideal sign material yet: stronger than steel, lower cost than aluminum, it is prefinished and permits direct application of reflective sheeting.

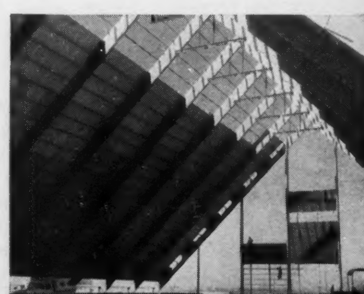
The coupon at right will bring you complete information.

Stout plywood floors support giant electronic computers

The increasing use of heavy electronic machines poses the problem of how to build floors strong enough to bear extremely heavy loads, while still providing access to under-floor areas for adjustments to wiring and air conditioning. Above, a special plywood floor system devised to meet this need is seen, as installed at a leading West Coast university's data processing center. Removable, 2x4-ft. panels of $1\frac{1}{8}$-in. thick fir plywood are laid over steel supports. Another system, installed by Hughes Aircraft, has 4 x 4-ft. stressed skin plywood panels. Besides offering strength and adaptability, plywood floor systems are economical, in both original cost and upkeep.

Plywood and an unusual shape cut warehouse construction costs

An A-frame design and plywood construction added up to remarkable savings for Holly Sugar Corporation's new warehouse in Tracy, Calif. The triangular shape, dictated by the fact that dried sugar beet pulp settles at a 42-degree angle, will permit stacking almost to the level of the conveyor under the ridgeline. The fir plywood sheathing for the walls (which are also the roof) was specified for its superior diaphragm strength as well as economy. Cost of the 140-ft. by 180-ft. warehouse was considerably less than what a steel building would have cost. Cleanliness and upkeep costs were additional considerations in the choice of Exterior plywood. It has a smooth crack-free surface, is unaffected by humidity, and will need no maintenance for years to come.



has been in the Ford Motor Co.'s Local 600. But it appears almost certain that the union's negotiators will go along with the dropping—or deferral—of shorter work week demands in the auto industry. They have considerable to gain merely from winning for Ford workers the terms of the GM-UAW contract.

This is equally true of UAW's negotiators in the farm equipment manufacturing industry. They were prepared, earlier, to go after a shorter work week to relieve high unemployment in the industry's plants. Now there is less joblessness, and UAW's negotiators are pressing International Harvester Co. and others in the industry for "GM pattern" settlements. There's no serious talk about a shorter week.

What about steel? If the campaign for reduced hours is to be revived in the early 1960s, the United Steelworkers will be the union that must attempt to give it new life. USW, led by David J. McDonald, will lead a new round of wage bargaining when its contracts expire.

The Steelworkers' membership has been hard hit by technological developments in the industry. Although steel employment has been rising, many USW members once employed in mills will never go back—unless steel needs rise spectacularly or automated steelmaking is offset by shorter weeks or other spread-the-work devices.

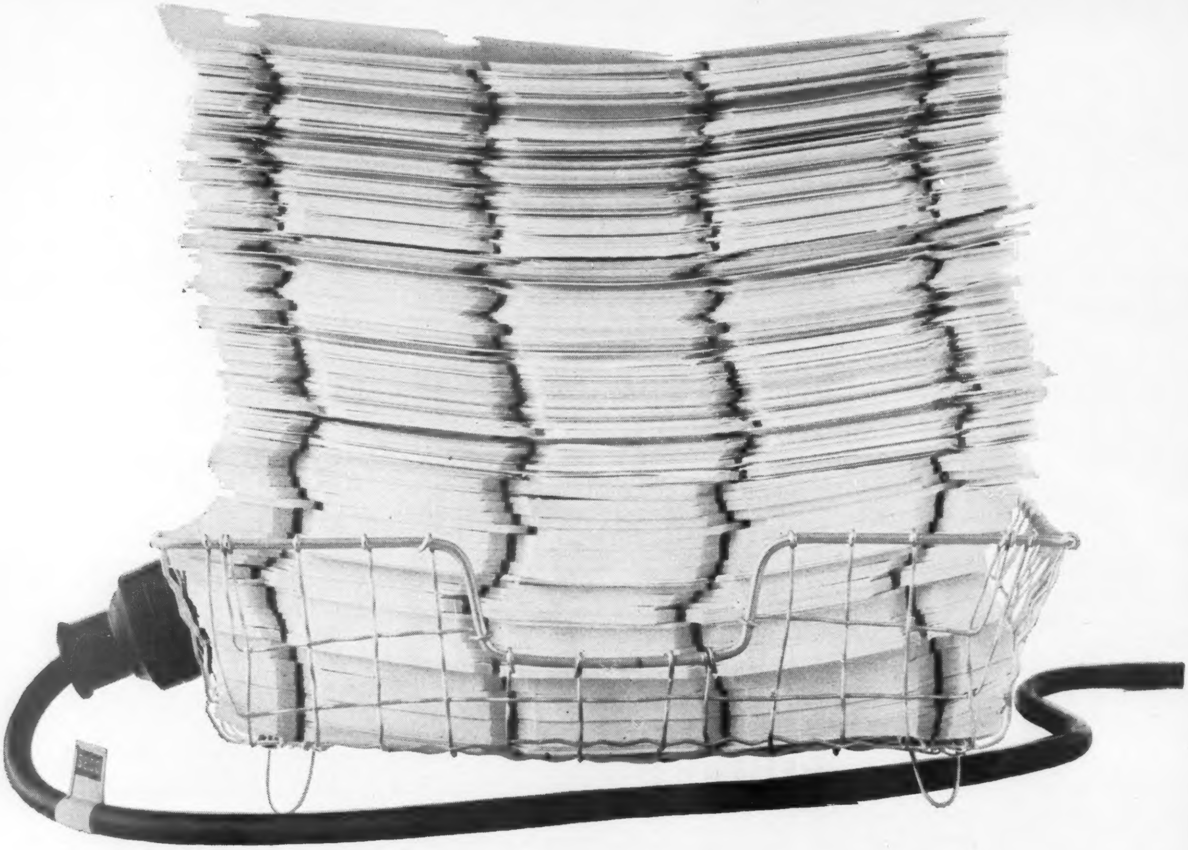
Steel union spokesmen have argued, for years, that the work week should be cut through collective bargaining. The issue has been on the bargaining table, rejected outright by employers, and subsequently traded away by the union. USW leaders are talking—again—of forcing negotiations "seriously this time" on the shorter work week.

Reminded of the Administration's opposition to such a demand, one USW official countered by saying that "Goldberg [Labor Secy. Arthur J. Goldberg] used to be 100% for a shorter work week when he was with us—and he can't back away from that now." Goldberg formerly was general counsel for USW.

The United Electrical Workers also is on record now—and strongly so—for a shorter work week fight. It reiterated this at its annual convention in New York a week ago.

Nevertheless, it is doubtful that either USW or UE will make a serious fight for a cut in hours without a reduction in weekly wages in 1962 if there is no important reinforcement of labor's bargaining position before then. Given continued conditions as they are now, the issue will remain dormant. **End**

Report on Electrical Modernization (THIRD IN A SERIES)



Electricity multiplied Howard's output and did away with overtime

Months ago, strained nerves, backlogs of paper work and costly overtime were common occurrences at The Howard Savings Institution, Newark, New Jersey. Today there's a dramatic change.

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Though simpler than most remodeling projects, electrical modernization is often the most rewarding. Offices, stores and plants in all 50 states are realizing a decided jump in output, sales and profits by employing electricity in hundreds of new ways.

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KEEP PACE ELECTRICALLY

Call your electrical contractor, electrical league or power company

This series is published by National Wiring Bureau, 155 E. 44 St., New York 17, a non-profit organization dedicated to better understanding and utilization of the benefits of electricity.

Local issues still snag GM

National UAW leaders gave the plant unions their head for a while but finally cracked down. GM plants should be in full swing next week. Ford and Chrysler come next

The United Auto Workers, which glories in its democracy and militancy, has demonstrated both these qualities—possibly too well—in its dealings this week with General Motors Corp. as an unwilling witness. GM thought it had settled the most troublesome part of its 1961 labor bargaining two weeks ago when UAW's national negotiating team accepted a bulging bag of financial goodies. But it reckoned without the UAW local unions' carefully nurtured freedom to seek their own solutions to local problems.

As a result, next week GM will be struggling to get back to full production of 1962 cars after turning out only a handful of vehicles this week. And it has little consolation from signs in Detroit that Ford Motor Co. and Chrysler Corp. may have to face the same sort of hazing GM has been put through.

GM will get back to work next week if UAW this time can make its members stick to the fifth of the union's deadlines.

One after another. The 1958 UAW-GM contract expired Aug. 31. At the suggestion of William Simkin, director of the Federal Mediation & Conciliation Service, the contract—consequently the settlement day—was extended until Sept. 6. Early that morning, both sides announced that, in view of progress toward an economic agreement, the strike deadline would be set back to Sept. 11, to allow time to work out settlements on local issues at the 129 GM plants.

UAW's General Motors Conference was scheduled to meet Sept. 13, so there was optimism in GM that even if some locals did strike on Sept. 11, everything would be wrapped up two days later. Then UAW Pres. Walter Reuther pulled the plug. He postponed the conference meeting indefinitely and said that any local union that had not settled its problems on the morning of Sept. 11 should strike.

After that, the national negotiations were at a standstill. Company and union teams still worked on the fifth floor of the General Motors Building in Detroit, but only to offer top-level coordination and guidance, by telephone and teletype, to local union and plant negotiators in the field.

Late last week, after "get moving, boys" messages (both in the name of Pres. Kennedy) from Simkin and Labor Secy. Arthur J. Goldberg, Reuther, too, apparently lost patience and summoned the union executive board and negotiators to the union's headquarters overlooking the Detroit River.

To be expected. The cleanup of the GM negotiations had dragged on longer than had been hoped—Reuther's peremptory summons to this field forces showed that—but not longer than could be expected. In 1958, for instance, GM was shut down for eight weeks after a national economic agreement had been reached.

Though shorter than in 1958, the local strike shutdowns this year have their own high interest. They are rooted in an unexplained bargaining tactic by GM, in local union politics, and in the understandable—even though unfortunate for GM—human compulsion to gripe.

Three years is a long time to go without telling off management, and quite a few local union leaders in GM plants had things to say to the company people that wouldn't get much attention during the life of a contract.

Lost weapon. GM, most likely on good assurance from the union side of the table, lost its principal weapon to speed an over-all settlement when it agreed to the economic terms and further agreed to make them public.

Long before negotiations began, it was well understood that at GM, at least, there would be no national settlement until all local matters had been resolved. Undoubtedly GM intended to stick to that policy; even when the economic terms were announced, GM stated plainly that they did not constitute a full settlement—that the economic package was contingent upon satisfactory solution of all the other matters.

That was like a whisper in a windstorm. After the economic terms had been made public, it would have been difficult for GM to withdraw them.

That is one thing that makes Ford and Chrysler managements so uneasy. They do not have even the seeming advantage that GM temporarily had and lost, for GM's economic terms are just about what the other two companies will have to give.

Ford and Chrysler have been expecting and are more or less resigned to the local settlements that must come slowly because a man or group of men have a lot to say. But the GM strike has turned up two other, and very disturbing, reasons for slow settlement of disputes on the plant level.

Axes to grind. One is factionalism in the locals. Generally, locals whose members have been hard-hit by layoffs are the ones in which there is a strong "get-tough-with-management" faction. This faction wants spread-the-work measures, such as bans on overtime and outside contracting.

These are matters that really belong on the table in national negotiations. But it is a brave local negotiator indeed—particularly if he also is an officer in the local and wants to keep his job—who will drop such proposals short of an outright order from UAW headquarters.

Whipsawing. The other reason for slow settlement of plant disputes is an echo of UAW tactics on the national level. Just as UAW used the original economic offer of the Big Three to whipsaw American Motors Corp. into a better package, and used that to lever a settlement out of GM, so GM locals have been whipsawing individual GM plants.

Obviously, there is no end to that kind of competition. It can go on for weeks—unless the national headquarters of the union puts its foot down. UAW officers, mindful and prideful of their basic tenet that their authority derives from the grass roots, always have been unwilling or unable to crack down on local unions in collective bargaining affairs. **End**

District 50's 'independence' from UMW is a problem to both

The mine union's most prominent member group now elects its own officers, but is still 'fully affiliated.' This raises question of just what District 50's status is

The once-powerful United Mine Workers and its fully grown affiliate, the "catchall" District 50, are undergoing divorce proceedings, but the emotional ties still remain.

Ever since its first international convention last February, when District 50 for the first time elected its own international officers, the question has lingered whether the UMW's most prominent affiliate is now an independent union. The answer has important ramifications, both legal and financial.

Forced change. District 50 has grown from the UMW's stepchild to the largest union in the miners' camp, with more than 250,000 members. Its officers, headed by A. D. Lewis (picture), brother of John L., were appointed at first by the UMW leaders. Moreover, despite its rapid growth, District 50 had no voice in the UMW convention procedures.

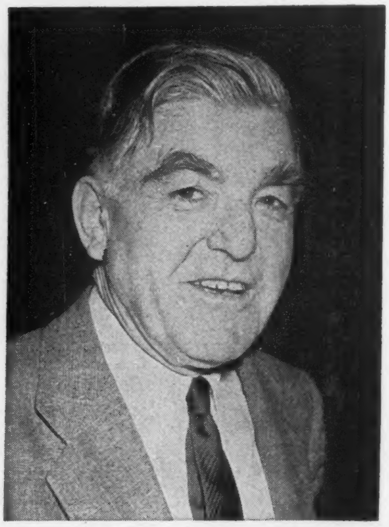
With the passage of the 1959 Landrum-Griffin law, which requires a form of self-government for unions, District 50 was forced into a separation that it achieved by holding its first convention and voting for its own officers. A. D. Lewis and others of the previously appointive District 50 team were elected to office.

This action, according to UMW attorneys, left District 50 an "independent" but "fully affiliated" union of the United Mine Workers. But the big question is how independent it really is.

This is the problem facing the battery of UMW attorneys. The mine union, aggressively pursuing extension of contracts among resisting mine owners, is facing damage suits running into many millions of dollars. (UMW declines to estimate the total but a few days ago, the White Oak Coal Co., at Jellico, Tenn., won a $385,000 damage award from UMW bringing total judgments to more than $1.5-million.)

Now, District 50 is a target of suits, too. So both want to protect "independent" treasuries.

Status clouded. If District 50 can establish a truly independent relationship with UMW, presumably its treasury would not be in jeopardy from these suits. So far, they have not been able to establish this.



A. D. Lewis, brother of John L., is elected head of now "independent" District 50.

One trouble is the administrative closeness of the two unions, both housed in UMW properties in Washington. Though John L. Lewis has retired (he's now UMW president-emeritus), he still is the controlling force in the miners' union empire. District 50 leaders, of course, accept his views, and will continue to.

Jurisdictional conflict. Meanwhile, District 50, showing unusual organizing successes runs constantly into conflicts with AFL-CIO.

Many in AFL-CIO are urging UMW to return to its House of Labor. However, reaffiliation inevitably would be snagged by UMW's District 50; unions that have lost members to the catchall want them returned.

It's doubtful that the new status of District 50 will remove this stumbling block to UMW's reaffiliation. In labor's eyes, it will still be a part of UMW. **End**

In labor

BW

NLRB chief asks stiffer penalties for willful and repeated violations

Harsher remedies are being considered by the National Labor Relations Board for dealing with employers and unions that "repeatedly violate [the Taft-Hartley Act] with knowledge that they are doing so," according to NLRB Chmn. Frank W. McCulloch.

In a speech before the Federal Bar Assn. in Washington, **McCulloch said that "a bigger stick" is necessary because of the "apparent ineffectiveness of [NLRB] remedies in many cases."**

McCulloch, named to head NLRB last February, particularly criticized remedies now available where employers discharge workers who support a union during organizing campaigns, or employers otherwise interfere with the union activities of employees. Penalties ordered a year or two later—usually orders to reinstate discharged workers—often are meaningless, McCulloch said, because the employees have gone to other jobs.

One remedy now being considered in cases where an employer has "destroyed any majority status of a union by illegal techniques" would "saddle the employer with the union for a 12-month period during which he must recognize and bargain with it," McCulloch said.

Another is to make a greater use of NLRB's discretionary power to seek injunctions.

Rep. James Roosevelt (D-Calif.) similarly urged stiffer penalties for willful and repeated NLRB violations during committee hearings recently.

Slick Airways flight engineers agree to join pilots union

Flight engineers employed by Slick Airways have dissolved their chapter of the Flight Engineers International Assn. and named the rival Air Line Pilots Assn. as their bargaining agent. The move followed similar switches from FEIA to ALPA at Continental Airlines and United Air Lines.

A Presidential commission—appointed after the flight engineers struck in February to keep their craft and union separate from the pilots'—has recommended that flight engineers be replaced gradually by engineers who are also qualified as pilots [BW Jun.3'61,p103]. It also recommended a merger of the two unions.

Work-sharing plan ends at Parke-Davis; union says overtime soured workers on idea

A few months ago, 450 women unionists at Parke, Davis & Co.'s plant in Detroit agreed to give up work time to permit the rehiring of a number of fellow workers who had been laid off. By surrendering—voluntarily—one or two weeks of work and pay, the 450 employees helped 24 others get five months' more employment. The five-month trial plan was widely praised as a demonstration of work-sharing.

But **about a week ago the plan ended—and was not renewed.** When initiated early this year, the plan had the support of half of the 900 women employees polled by Parke, Davis & Co. When the renewal of the work-sharing plan was voted on, only 20% of those polled (this time all of the plant's 1,600 employees) agreed to give up work time.

The plant local of the Oil, Chemical & Atomic Workers said the change in attitude resulted from "avoidable" overtime scheduled by the company just before the latest poll.

Parke-Davis said it hasn't been able to pin down why there was such a "poor" response in the poll, compared with the earlier one.

Hormel figures its fringe benefits cost $1,405 a year per employee

Management's total fringe costs are high—and getting higher every year. Every employer is uncomfortably aware of that; most have figures to prove it. But many fail to impress on employees just how much management is committed to pay out in nonwage costs.

Geo. A. Hormel & Co. recently published in its news magazine for employees a rundown of fringe benefits for 1960. The total cost was $12,128,230, or $1,405 per employee, out of company funds.

Here's how Hormel said its costs averaged out for each employee: hospital-medical insurance, $186; group life insurance, $11; disability insurance, $92; paid vacations and holidays, $414; joint earnings plan, $145; recess periods, $156; medical department, $16; pensions, $174; social security, unemployment insurance, and workmen's compensation, $187, and such personal services as a cafeteria, lockers, parking facilities, $24.

Lone Star sues Steelworkers for $5½-million over wildcat strike

Lone Star Steel Co., of Dallas, has filed suit against the United Steelworkers for $5½-million to cover losses allegedly caused by a 1957 wildcat strike. The suit asks for costs of lost production and business, overtime pay required to meet schedules, legal and court costs, food, shelter, and protection for workers in the plant, and payments to workers for their property damaged by strikers.

Some 2,600 strikers were fired during the strike, then ordered rehired in a post-strike arbitration. Many of these now seek back pay. If they win their arbitration cases, Lone Star has asked the court to add the cost to the union damages.

A USW spokesman characterized the suit as "way out in the twilight zone."

How utilities will raise $8-billion

Private power industry should have little trouble finding the money to finance the new nationwide grid of transmission lines proposed for completion by 1970

Last week, privately held electric utility companies announced that they would spend $8-billion by 1970 for new transmission lines [BW Sep. 16'61,p38], marking a new turn in the long-standing dispute over public vs. private power: Privately held companies think they're now ready financially to tackle the job of a nationwide grid—which is also more feasible technically than ever before.

There's no question that investor-owned utilities are in good position financially to tackle the challenge. The companies plan to spend some $8-billion through 1970 to add about 100,000 miles to the nation's 364,000 miles of transmission line. Thus, the new lines will more than double the present $6.7-billion investment in such facilities. And this sum will be added to other expenditures for new construction.

Transmission lines have moved to the center of the stage chiefly because of technological developments in the industry. Two factors have made interconnections both feasible and highly desirable economically. One is the use of larger central stations, producing at lower cost per kilowatt hour. The other is the development of high-voltage transmission lines, resulting in lower costs in transmitting electricity over long distances.

Federal power. Utility men contend that whoever controls these major links—between systems and major load centers—may control power development. They fear that with federal transmission lines linking the major sources of generating capacity and marketing centers, the nation's utilities might become dependent on government lines and shift their own operations toward distribution.

The government denies that this is its intention, but it has taken steps toward a broad public power program, by proposing a network of federal transmission lines to connect the various federal systems from coast to coast. The first would be a high-voltage inter-tie from the Bonneville system of the Pacific Northwest to California [BW Jul.8'61,p32]. Another proposal calls for nearly $200-million worth of big lines between new dams under construction as part of the Upper Colorado River storage project, and power market centers in five Western states.

The new industry program is clearly a countermeasure to the federal government's proposals. According to one spokesman, there is now no need for major federal line projects.

Grid pays off. There's no question about the economic advantages of interconnecting power operations. Because they allow companies to take advantage of variations in markets, they lead to all sorts of benefits —for example, smaller needs for reserve generating capacity. Indeed, nearly all the electric power systems east of the Rocky Mountains, including 100 companies in 32 states, are interconnected; west of the Rockies, interconnected operation has also been a fact for many years. Most electric companies that serve adjoining territories are already interconnected even if they are not presently using the interconnections.

The announced expansion program would add almost 30% more line to the nation's transmission network. And further development of high-voltage transmission—American Electric Power Co. and Westinghouse Electric Corp. have been operating an experimental line at 775,000 volts—means that more efficient interties are around the corner.

In all, the Edison Electric Institute figures that investment in electric plant will total $88-billion by 1970, as against $46-billion in 1960. Transmission lines then will account for about 20% of new construction.

This means that the electric utilities will have to step up their spending rate substantially. To realize their plans private utilities will have to spend closer to $6-billion annually by 1970.

Financing. The industry figures it can meet the cost by generating about 40% to 50% of the funds internally, going to the market for the balance. As analysts see it, this should be a fairly easy task for a number of reasons:

- The industry, for one thing, has had a breather after its last period of breakneck expansion. Last year, its construction outlays slowed to $3.3-billion from 1959's $3.4-billion and 1958's $3.8-billion. This meant it only needed $1.7-billion in new money—compared to $2.5-billion in 1957. So now utilities are in position to come back into the market.
- Cash flow has been increasing. All the new equipment put on stream in the last decade means that the electric utilities can figure depreciation at reasonably close to currrent price levels; depreciation charges, therefore, have been rising, helped by the widespread use of accelerated depreciation methods.
- Electric utility shares are trading at 20 to 25 times earnings, a more favorable ratio than they've experienced in years. In addition, in 1960, utilities sold less than $100-million worth of new stock, which means that the equity route should provide a good deal of capital.
- Earnings generally are good, though some companies report a slowdown this year. The fact is that state regulatory agencies have been fairly reasonable in granting rate hikes.
- Debt-equity ratios are pretty well in hand. Bond underwriters get a little upset when a utility's debt is more than 50% of its capitalization, but most companies that will be involved in the coming expansion are shy of that mark.

All this means that the electric utilities have lots of room to maneuver. The amount they plan to raise is not regarded as a staggering sum, and their financial strength indicates they can do it. If the money market tightens up, utilities may have to pay high rates for borrowed funds. But as their financing will take place over an extended period, there'll be times when market rates will be on the low side, so utility men feel that rates will even out over the long run. **End**

Totting up Carla's havoc

Small army of insurance adjusters is finding that hurricane damage in Southwest is rather less than feared

As the East Coast braced itself apprehensively for the remainder of the hurricane season, some 4,000 insurance company adjusters were still trying to assess the damage caused by Hurricane Carla, which bucked the Southwest a week ago. But the insurers were already finding their Carla prospects a lot brighter than they had feared.

While total property damage may run close to $250-million, insurance companies now estimate their losses will be less than $100-million, perhaps no more than $75-million. This is a heavy loss, but not an overly serious one. It will run behind the record $173-million paid out in 1950, after windstorms hit the Northeast; it also won't come near the losses from Hurricane Carol in 1953 ($129-million), Hazel in 1953 ($122-million), and Donna in 1960 ($100-million).

Certainly, Carla will strain the resources of some of the smaller Texas insurance companies. Some of them will be strapped for cash to pay claims, and will have to sell short-term securities from their portfolios to meet the extra cash demands. Others—with losses ranging from $500,000 to $1-million—may lose the equivalent of several years earnings. Many are hedged by reinsurance, which will help, but it also means that they will have trouble next year when they have to renegotiate reinsurance agreements.

Risks spread. Except for Republic Insurance Co., a Texas corporation, most of the leading underwriters have only a small percentage of their risks in Texas. And Russell H. Perry of Republic says his company wasn't hurt too badly. A premature estimate, he says, would be around $500,000.

What kept insurance losses low was that Houston missed the brunt of the storm.

The big industrial plants in the region were also better prepared than in previous years. A good number are self-insured; others are pretty well covered for wind damage, but coverage for flood damage is not available. Reynolds Metals, for instance, now estimates damage at between $125,000 and $150,000, most of it covered. Olin Mathieson, however, says it won't get too much back on $500,000 damage because most of it was flood damage.

In checking first claims on property, adjusters say their big problem will be to decide whether it was wind or water that caused damage. Wind damage—but not flood damage—is covered by the usual extended coverage in fire insurance policies. But it's a hard decision to sift out damage caused by flooding.

'Fine print.' Gov. Price Daniel of Texas has asked the insurance companies not to be too finicky about such decisions, and not to take "fine print exceptions." Most companies resent Daniel's inference, say they're handling their policyholders fairly, in line with the policies they signed. Damage, though, is covered in several other policies: comprehensive auto policies, so-called inland marine floaters, certain all-risk policies, some personal property floaters, and other marine policies covering boats, cargo, and merchandise in transit or in storage.

It will be weeks before all the claims are sorted. So the full impact of Carla on insurance companies won't be known for some time. But Carla could mean that most fire insurance companies will show red ink on their 1961 underwriting.

Profits—if any. Fire companies have two major sources of income. One source is from their sizable investment portfolios, which is generally dependable. The other is the profit, if any, on their underwriting business—the difference between income in premiums on the one hand and payments in insurance claims and general operating costs on the other. Income from securities is usually enough to offset any underwriting loss and thus produce an over-all profit.

But this year underwriting losses were so heavy in the first six months —due to a 10% increase in fire losses—that some companies had a net deficit for the first half. Others showed an underwriting loss, compared to an underwriting profit for the like period a year ago. Underwriters had hoped that the second half would show an improvement, but Carla's experience dims this hope. **End**

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In finance

BW

Corporate demand for bank credit continues its puzzling lag

Corporate demand for bank credit, which normally rises with a pickup in business, is continuing to lag—and it's something of a puzzle. Since midyear, business loans have fallen to a level $162-million below a year earlier. Last week, business loans rose $58-million compared to a $160-million rise in 1960, when third-quarter tax payments fell due. Borrowing for 1961's taxes will take place this week, and bankers hope for an increase.

Nevertheless, the moderate nature of loan demand is unusual. Part of the explanation is that U. S. corporations increased their net working capital by a record $3.6-billion in the second quarter, according to Securities & Exchange Commission estimates. At the same time, there was a record volume of financings via stock issues and corporate bond offerings; while a good portion of this financing represented refunding, it added to over-all corporate liquidity.

Bankers will not be raising their interest rates as long as loan demand remains relatively slack. And as M. A. Schapiro & Co., a leading bank stock dealer, points out, "Banks are not under pressure to liquidate securities at losses in order to raise cash to meet loan demand as they have been in the past when money was tight." The fact is that **the Federal Reserve is under no pressure to tighten credit with loan demand so modest,** and can allow the banks to take up the slack if demand suddenly begins rising.

Ford's acquisition of Philco will bring foundation very nearly $100-million

The Ford Foundation will be getting close to $100-million as a result of Ford Motor Co.'s acquisition of Philco Corp. [BW Sep.16'61,p34]. Under the terms of the agreement between Ford and Philco, more than 900,000 shares of Ford common stock will be exchanged for the 4.1-million Philco shares outstanding, on the basis of one Ford share for every 4½ Philco shares. **In addition, holders of Philco's 100,000 preferred shares will receive "shares of Ford common stock approximately equal in value to $101.50, plus cash equal to accrued and unpaid dividends." At current market prices, this works out to another 100,000 shares of Ford.**

This means that something more than 1-million shares of Ford stock will be used for the Philco purchase. Ford Motor Co. is arranging to buy the shares from the Ford Foundation, which holds 31.9-million of Class A non-voting stock—53% of the total Ford shares outstanding—that is transferrable into common stock. (Ford will retire the A stock, replacing it with common on a share for share basis.)

Foundation officials refuse to disclose the exact purchase price but admit that it is below $100 a share, which will give the Foundation around $100-million. In its last public sale of stock in June, the Foundation sold 2.75-million shares at $80.50 a share, which gave it more than $220-million. The Foundation, which is diversifying its portfolio through purchase of equities, bonds, and private placements, plans to continue this policy when the new funds come in.

Oil industry cheered as IRS lifts moratorium on some advance tax rulings

The oil industry received a lift this week when the Internal Revenue Service removed its moratorium on issuing advance rulings over the tax treatment of profits arising from certain sales of oil properties—specifically ABC deals, so-called because they involve three parties [BW Aug.5'61,p105]. The moratorium has been in force since mid-July; since then many oil companies—notably Honolulu Oil Corp., which is selling its assets for about $380-million—have been forced to postpone or shelve transactions. (Justice Dept. this week filed suit to block the Honolulu sale to Tidewater Oil Co. and Pan American Petroleum Corp. on antitrust grounds.)

Under current tax rules, the seller of oil property in an ABC deal has paid taxes at the 25% capital gains rate on income from the sale of reserved oil payments he received for the property. IRS is now considering whether this income should be taxed at ordinary rates. For corporations this would mean a rate of as much as 52%; oilmen contend this would seriously affect their traditional way of doing business.

IRS says that its lifting of the moratorium does not mean it has decided against a change. The agency merely says its review is still under way, but oilmen are betting against any drastic alteration. What may come out, they say, is a clarification of which deals will be considered ineligible for capital gains treatment.

Finance briefs

Sheraton Corp. is having second thoughts about converting itself into a real estate investment trust. Last year, after Congress passed the Real Estate Investment Trust Act, Sheraton had taken steps to qualify as a trust; this would have exempted it from income taxes if it distributed 90% or more of net income to shareholders. But this week Sheraton Pres. Ernest Henderson said that the Treasury Dept. has failed to issue interpretations of the act, so that Sheraton cannot determine whether it would benefit from conversion. In Henderson's view, the tax benefits would be minor, and he is no longer so anxious to make the shift.

"Giveaways" by California's state-chartered savings and loan associations to attract savings will be outlawed, effective Sept. 29, in an effort to end the abuses in S&L practices of gift-giving, services, and premiums to shareholders. (Federally licensed S&Ls will come under similar restrictions issued last month by federal authorities.) California's S&Ls have stepped up out-of-state advertising to attract funds before the rule takes effect.

Self-service store in suburban Lincolnwood, Ill., stresses convenience of cleaning and laundry facilities in one location

MARKETING

Automatic cleaners start to whirl

With sales of coin-operated dry cleaning units up from $2-million in 1960 to an expected $50-million this year, 23 manufacturers are rushing to get in on the market

American housewives are dropping quarters and bundles of soiled clothing into coin-operated dry-cleaning machines at a steadily mounting clip this year (picture).

Lured by both curiosity and bargain rates—8 lb. to 10 lb. of clothing cleaned for less than $2—consumers are expected to spend over $30-million in 1961 and $60-million in 1962 on do-it-yourself dry cleaning.

In 1960, a single manufacturer, Standard, Inc., of Little Rock, Ark., [BW Aug.27'60,p53] sold perhaps 400 self-service cleaning units for a total volume of less than $2-million, says Pres. C. B. Pugh. This year, with such home appliance giants as Norge Div. of Borg-Warner Corp., Whirlpool Corp., Philco Corp., and Westinghouse Electric Corp. in the field, manufacturers estimate volume should hit $50-million with sales of about 25,000 machines. Forecasts for 1962 range all the way up to 50,000 units and $100-million.

Makers multiply. In all, 23 manufacturers make or plan to make coin-operated dry-cleaning machines. One industry sales executive predicts that more than half the $2-billion now spent annually on dry cleaning will go into self-service machines within five years.

As an added bonus, the traffic-building power of coin-operated dry cleaning should boost the $300-million-a-year coin laundry business.

Do-it-yourself dry cleaning could even outstrip do-it-yourself laundries in total volume. While coin laundries compete with home laundry appliances, there's no counterpart to the automatic dry cleaner on the consumer market. High price tags—dry cleaner prices begin at $2,000—should keep it that way for a number of years.

Norge currently holds the edge in coin-operated dry cleaning, claiming at least 50% to 75% of the industry's volume. The company has spent more than $2.5-million in selling self-service dry cleaning since

First step in preparing clothes for machine cleaning is testing of plastic buttons to see if solvent will harm them.

Next, sweaters are turned inside out, and zippers are closed. Housewives must also empty all pockets.

Water is sprayed on stains, which may be water-soluble. This will help cleaning solution remove them.

it introduced its machine to distributors last October. Next month, for example, Norge will give away a complete dry cleaning installation on "The Price Is Right" TV show.

Some manufacturers think Norge can't keep up its sales pace. "Norge can't sustain that kind of drive," one competing sales manager predicts. "You can tell our competitors they don't have to hold a tag day for us," Norge Chmn. Judson S. Sayre replies.

I. Aiming at the market

Most automatic dry-cleaning machines are basically alike under the skin. Clothing is cleaned in a solvent—usually perchlorethylene with detergent added—and then spun dry. Some garments need pressing, but most things need no additional treatment. All machines use a filtration system to separate dirt from the solvent, which is used over and over again. Cleaning cycles now vary from 30 minutes to one hour, though shorter-cycle units reportedly are on the way from General Motors Corp.'s Frigidaire Div. and from Vic Mfg. Co. of Minneapolis.

Coin-operated dry cleaning, manufacturers claim, saves the consumer at least two-thirds the cost of professional cleaning.

Selling approaches. The most marked differences between companies show up on the marketing side.

Norge has pushed into the lead with its own distinctive approach. While most companies offer single or paired units, Norge's basic package is a bank of eight machines, sharing a central filtration system and priced at about $15,000.

The basic Norge installation is the Laundry & Cleaning Village—a self-service store that includes at least one bank of eight dry cleaners, plus laundry equipment. A typical village would cost $40,000, with Borg-Warner's B-W Acceptance Corp. handling financing. Some 800 of Norge's 1,000 dry-cleaning installations qualify as villages.

By comparison, Whirlpool sells a single, self-contained unit for about $2,500 and Westinghouse a twin unit with a single filter for $4,400. Standard sells twin units in one shell for $6,200, and Philco Corp. has a dual unit package for $5,000.

Each manufacturer thinks it has hit on the right approach.

"Sure we can supply banks of eight units," says John Crouse, general manager of Whirlpool's Commercial Laundry & Drycleaning Equipment Div. "But when you can only sell in banks of eight units, you lose flexibility."

Counter view. A. A. McCarley, sales vice-president of ALD, Inc., national distributor of Westinghouse's commercial laundry and drycleaning equipment, also thinks Norge is on the wrong track. "Norge looks at each installation like a supermarket, but a coin-op store essentially is a neighborhood business. The big market is not going to be in setting up installations that must draw from a big population." In most instances, McCarley thinks, six units will meet the demand. "About 90% of our installations will have four to six wheels."

Norge is sticking with its successful village concept, although it recently began offering pairs of units, under the Borg-Warner label, to stores that can't handle eight machines. Says Sayre: "We don't just think our concept is right; we know it."

II. Winding path

The coin cleaning industry, like the coin laundry industry before it, has had its share of marketing turnarounds.

The first coin laundry stores, opened just after World War II, were fully attended operations, generally run by small businessmen. Growth was steady but unexciting, moving up from 538 stores in 1946 to about 6,000 in 1955. The turnaround came in the mid-1950s when the industry shifted over to unattended stores, open 24 hours a day and owned by investors—chiefly professional people who ran them as profitable sidelines.

The number of coin laundries jumped sharply—up to 8,000 stores in 1956 to 11,000 in 1957 and to more than 23,000 in 1960. ALD's McCarley sees the coin laundry continuing to grow "at about 3,500 stores per year as far down the road as I can see."

First Bendix and later Westinghouse held the major share of the coin laundry business until the mid-1950s, when other manufacturers began jumping in. McCarley now gives Westinghouse about 30% of the market and Econ-O-Wash, a subsidiary of McGraw-Edison Co., about 15%. The rest of the business is spread out among perhaps a dozen companies.

Target. The dry-cleaning industry also has pinpointed the professional-man-turned-investor as its most likely prospect, but only after a few false starts.

Whirlpool, for one, initially sold only to commercial dry cleaners. A few of the commercial cleaners bought units, but most stayed away. As a result, says Whirlpool's Crouse,

"We lost some business." Since March, Whirlpool has been selling to anyone. No more than 30% of its dry-cleaning machines—a figure that holds true for other manufacturers—have gone to commercial cleaners. To help push sales, Whirlpool recently organized a department that scouts out likely locations, opens self-service stores, and then sells the whole package to investors.

Norge, too, pushed its first machines toward professional dry cleaners, though to a lesser degree than Whirlpool. Standard sells most of its machines to existing self-service laundries and feels it's working in a far from saturated area.

ALD, Inc., has the most ambitious program, selling to commercial cleaners, investors, small businessmen, and existing coin laundries. The company also is testing dry-cleaning-only stores in areas where the coin laundry market already is saturated.

New directions. Most manufacturers now are beginning to carry self-service dry cleaning into relatively uncharted paths. One company, for instance, is dickering to install its dry-cleaning machines in filling stations and in department store parking lots. Others are casting glances at such fertile but untapped markets as motels, hotels, apartment houses, and the like.

"The future of this concept is absolutely tremendous," says Whirlpool's Crouse. "The only problem is to get the customer in the store the first time. I'd say right now less than 5% of the people even know about coin-operated dry cleaning."

Robert Bailey, executive vice-president of ALD, agrees: "It took us 10 years to make the self-service laundry a part of America. How fast dry cleaning goes depends on how fast you can get the American public to use the facilities."

III. Roadblocks

A more serious problem is increasing opposition from unions, commercial cleaners and launderers, and trade associations.

Unions see self-service stores taking jobs away from members. "It's putting our people out of work," a Chicago Teamster official declares. Ralph T. Fagan, president of the International Laundry, Dry Cleaning & Dye House Workers Union, says: "There isn't any question we've lost jobs to coin-operated laundries and dry cleaners. They've dug deeply into our membership."

Commercial cleaners. Professional cleaners have also been aroused by the trend. A year ago, Ben Rosenfield, director of Chicago's Dry Cleaners Assn., saw self-service dry cleaning as "an expanded market for cleaning materials." Today, Rosenfield attacks "irresponsible claims made by manufacturers of self-service dry cleaners." He says: "Manufacturers are avoiding the distinction between what is dry cleaning and what is rinsing. Self-service machines don't satisfy the standards for dry cleaning."

The National Institute of Drycleaning feels the ballyhoo about coin-ops has made the public more aware of dry cleaning, but argues that self-service stores can't provide such professional services as spot removal and hand finishing.

In the long run, commercial cleaners expect to lose few customers to coin-operated stores—particularly once the initial novelty has worn off. "Maybe they'll take 15% of our business but no more," says Ralph Tucker, president of Chicago's Leader Cleaners, a chain of commercial stores. Rosenfield puts the eventual loss at only 2% to 3%.

Opposition has crystallized into pressure for local laws restricting unattended self-service stores. Arguments for such bills generally follow two lines: (1) It's dangerous to operate heavy machinery or to permit use of toxic perchlorethylene without a full-time attendent, and (2) unattended stores breed crime, serve as hangouts for teen gangs.

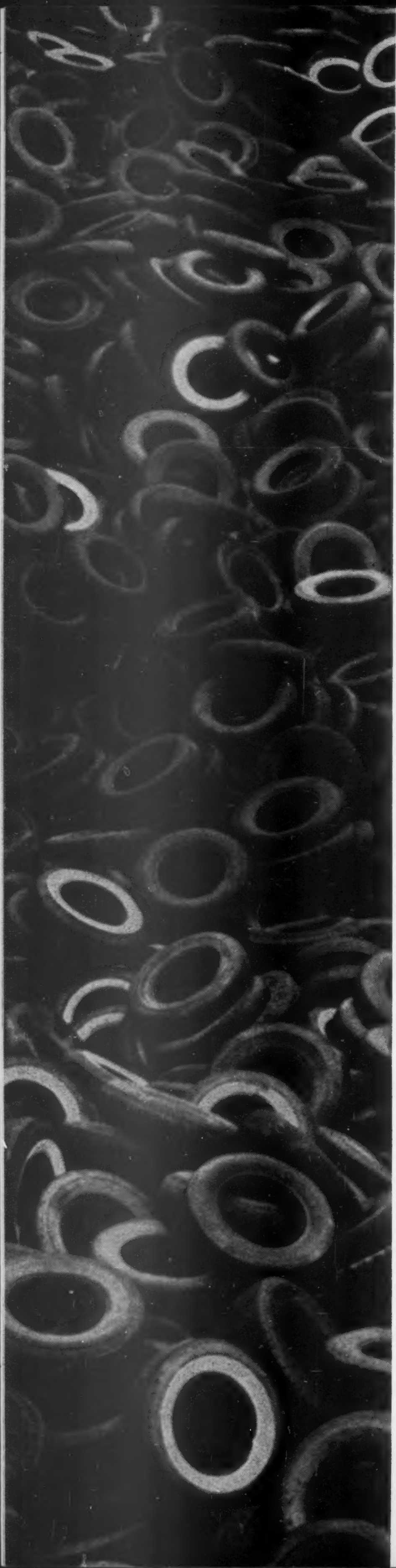
Legislation. To keep tabs on restrictive legislation, self-service equipment manufacturers organized the National Automatic Laundry & Cleaning Council. "Attempts to regulate this industry are on the rise," says C. S. Darling, the council's executive director. Behind the attempts, he feels, are "a limited number of dry cleaners and unions."

Chicago has the most stringent ordinance, passed last July despite strong opposition—and occasional charges of payoffs—by local newspapers. The bill hikes license fees, closes self-service stores between 11:30 p.m. and 6:30 a.m., and requires full-time attendants in dry cleaning stores and part-time attendants in laundry-only stores.

New York City and St. Louis have passed similar bills.

"These laws are not for the protection of the public," says Whirlpool's Crouse, "but for the protection of selfish interests. We don't object to laws covering health and safety, but we are opposed to legislation of a restrictive nature."

Restrictive legislation, Crouse believes, will slow down—but not stop—the industry. "You can't stop progress," he says. **End**



Auto tires find new sales outlets

And the smaller independent tire makers and distributors are gaining ground on the trend, selling even in food and department stores. Private brands are gaining, too

The tire business, historically one of the most competitive of all industries, is getting even more so—but this time it is the giant producers that are feeling the pressure.

In what some think may develop into a real distribution revolution, here are a few of the things going on today:

- Some of the smaller independent producers and distributors are kicking up their heels, taking a growing share of a bigger market.
- New outlets are opening up for distribution, including a sharp rise in the number of department stores selling tires—with more on the way. Even the old 5 & 10s are in the act. And the first food supermarket "auto center" opened during the summer, with tires as the principal item in the new unit.
- Finally, private brands are multiplying. This has long been a trend in the industry—until today Sears, Roebuck & Co.'s Allstate brand, according to a recent survey, ranks third behind Goodyear and Firestone brands. Now small chains of 10, 20, or 30 stores are offering tires with their own brand names.

I. Hot competition

You don't have to look far to see just how competitive the tire business is. In any daily newspaper or national magazine, you can read the screaming claims made by the manufacturers. It got to the point where superlatives piled on superlatives, until the industry agreed with the Federal Trade Commission to call a halt. Even so, companies still publicly accuse each other of engaging in misleading advertising.

Paring prices. Despite higher costs, including labor's last two annual wage boosts, the big companies have held firm to their old price lists, even cutting prices to meet mail order competition last December.

Besides this, an auto owner bent on doing a little shopping usually can win some kind of discount. In truck tires, nobody ever pays the list price.

For all the ad claims it is price that moves the merchandise. By their sheer size, the industry's major manufacturers—Goodyear, Firestone, B. F. Goodrich, and U. S. Rubber—lead in pricing, since it would be folly for a smaller company to boost prices on its own.

Two markets. The tire business is split in two—original equipment and the replacement market. Original equipment, called first-line tires, is good business even though it yields low profit. For one thing, the extra volume pays a good part of the overhead; for another, the prestige factor is important, and many motorists buy the brand that came with the car. So far only the Big Four plus General Tire & Rubber Co. share the original equipment market.

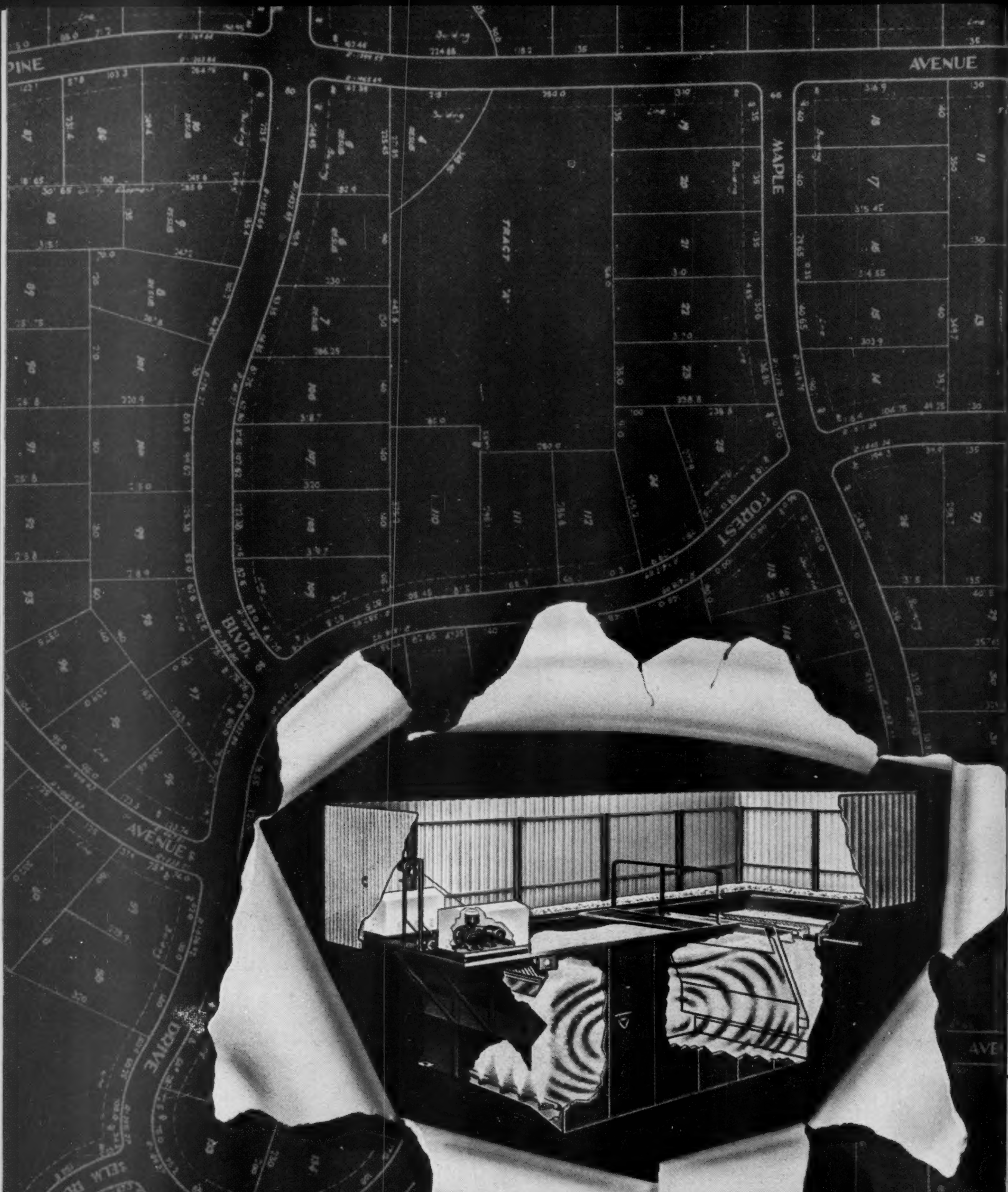
That leaves the replacement market—with an annual volume of about \$2-billion and 70-million units—as the battleground between the majors and the minors.

In this market, there are four grades of tires: premium (selling anywhere from 10% to 100% above first-line original equipment tires), first line, second line, and third line.

Besides these shadings of quality and price, there is the battle of the fibers—rayon (which pushed out cotton) and nylon. Nylon has taken a big share of the replacement market, hopes eventually to crack the original equipment market.

II. Peculiar product

With all the grades, sizes (especially with the wide variety of wheel sizes in today's auto market), and materials, the competition for attention of the consumer becomes fierce. Today only 17 producers of tires are still in business, compared with



The SMITH & LOVELESS "Oxigest" is a completely factory-built sewage treatment plant for schools, motels, industrial plants, small housing developments.

200 or more before and after World War I.

Despite all the competition, some in the industry, like Gerard W. Brooks, U. S. Rubber Co.'s director of tire marketing, think the industry is 15 years behind the times in marketing.

For one thing, Brooks thinks tires are like no other product, because the consumer just doesn't want to buy them. "There is no impulse factor in tires," Brooks says. "There is only the emergency factor."

For this reason, he thinks tire sales and service facilities must proliferate. That's why U. S. Rubber launched a store-building project of its own outlets, rejoining Firestone, Goodyear, and Goodrich, each of which has hundreds of owned-outlets for all kinds of merchandise. But Brooks thinks the department stores and junior department stores, such as J. J. Newberry Co., are going to have a major impact on the industry.

Henry Fawcett has led Mohawk Rubber Co. to a fast rise in the last five years, by backing independent dealers.

III. Healthy minor

Meanwhile, the minor producers are making gains by catering to the traditional independent dealers and jobbers. An outstanding performer is Mohawk Rubber Co., 11th in sales among publicly owned tire producers. Now in its 49th year, Mohawk began to move about five years ago. Volume more than doubled, from $15-million in 1956 to an estimated $35-million in 1961. Profits jumped from $370,000 in 1956 to a projected $1.5-million in 1961.

All this was achieved without the benefit of the diversification so dear to the hearts of the majors since World War II. Mohawk has stuck to tires.

Emphasis on selling. Henry M. (Hank) Fawcett, who succeeded his father-in-law, Ray E. Bloch, as president, gets the credit for Mohawk's revival. Inexperienced in the tire business and only 41 now, he nevertheless had some old-fashioned ideas about merchandising.

"To sell tires," he says, "you have to knock on doors. In our case, it is the dealers' doors."

In the first half of this year, his company has added an average of 175 dealers a month, mostly independents, to its distribution system. "We are constantly trying to figure out ways so dealers can increase their sales and make more money," he adds.

In the past year Mohawk has been particularly successful in getting dealers to promote the cheaper second-line tires, then trading customers up to the better-profits premium grade. The result is that 20% of Mohawk's sales volume is in top-grade tires, an unprecedented figure for the industry.

People like Fawcett and Brooks of U. S. Rubber think that a tire, of all things consumers buy, is something people know little about. Brooks describes tires as a product requiring "belly-to-belly selling." He adds: "The independent dealer still can do a better job of selling tires if he will just get out and merchandise and develop a reputation. If he does that, he'll never be pushed out of business by any group or outlet."

Mohawk's rejuvenation started with the 1956 acquisition of a former war plant in West Helena, Ark., through the state's Industrial Development Commission. Fawcett believes the converted plant is still the most highly automated factory in a business where automation is hard to achieve.

With that production, Mohawk concentrated on the Southwest as a market, though it does distribute nationally with the added production from its Akron plant. Now Mohawk plans to take a serious crack at the East, where it is looking for a plant site, with hopes for a new automated plant by 1963.

IV. New outlets

Mohawk demonstrates that there is room for the smaller producer. There is also evidence that there is room for the hard-driving independent distributor who can take advantage of the changing character of retail outlets, in which all kinds of merchandise are now sold virtually under one roof—from food to appliances.

One example is Vanderbilt Tire & Rubber Corp., New York marketing organization. The old Vanderbilt name and molds were acquired by Harold Leitman in 1950. He began marketing tires through department stores, now has agreements with Macy's and Bamberger's in the East, May Co. on the West Coast, Wieboldt's in Chicago, Richard's in Miami, the Crescent in Spokane, and Meier & Frank in Portland, Ore.

In all he has 40 major auto centers, with 20 more due soon. Leitman thinks he'll have the largest separate tire outlet in the country when his 16-bay Macy's outlet opens in White Plains, N. Y., in December.

Vanderbilt's tires are built by U. S. Rubber, Dunlop, and Cooper Tire & Rubber Co. It leases the department store space and uses its name, advertising rates, and credit facilities. The store gets a percentage of sales.

Two new fields. Now Vanderbilt is invading a new field. A few months ago it signed marketing agreements with Neisner Brothers, Inc., and J. J. Newberry Co., variety chains. Its tires are being sold in 50 Neisner and four Newberry stores.

But Leitman thinks Vanderbilt's biggest untapped market is the supermarkets. This summer he opened the first auto center in conjunction with Food Fair Stores, Inc., at Erlton, N. J., just outside of Philadelphia. At least five more Food Fair auto centers are scheduled to open before the end of 1961.

Doing likewise. Vanderbilt isn't alone in developing offbeat outlets for tires. Among the majors, Goodrich has five "car care centers" at department stores, with three more to be ready by yearend. General Tire is the only other major with a department store tie-up, but the rest are watching the market.

Among smaller companies, Mansfield Tire & Rubber Co. took over Abel Corp., Columbus marketer, a few months ago. Abel claims it is the biggest merchandiser of tires through department stores with leased departments in 52 stores in principal cities and an additional 18 units scheduled to open in the next year.

So far, the department-store type of tire distribution is only about 4% of total replacement sales, according to a recent survey. But even that is a healthy gain from the estimated 3% last year. **End**

FTC assails suggested list prices

Agency charges that figures set by Regina Corp. are fictitious, and can be used to delude the consumer. Company defends its list as a fair estimate

The Federal Trade Commission last week began its most determined attack yet on a venerable practice: the use of manufacturer's suggested retail prices.

The issue is whether the suggested list prices of Regina Corp., maker of electric floor polishers, brooms, cleaners, and the like, are fictitious, as FTC charges, and whether such prices can be used to mislead consumers and unfairly divert sales from competitors.

FTC hearing examiner Herman Tocker heard arguments in New York City on what may prove to be a precedent-setting case. The agency's prosecuting attorney argued that a manufacturer that furnishes list prices that are exaggerated or in excess of the "usual and customary" selling price is indulging in a deceptive practice under Section 5 of the FTC Act. A retailer may advertise a list price of $50, say, along with "our low price" of $35, when $35 represents the going market price. The consumer thinks he is getting a bargain when he is simply paying the going rate.

'Customary.' The prosecutor said he was not attacking list prices per se but that it is a manufacturer's responsibility to see that the lists are not misused. If FTC upholds the charges, though, the effect would be to knock suggested list prices dead. If the only list price that is acceptable to FTC is one that reflects the usual price, the manufacturer would have to throw in the towel. As Regina's counsel argued, there is no "usual and customary price" in today's competitive market.

Regina held that the suggested list price represents the manufacturer's estimate of a fair price. It provides a guide for distributor, retailer, and the public as to a product's value. Regina pointed out that car dealers must by law tag their wares with manufacturer's list—an argument that the hearing examiner would not allow on the grounds that cars were a special case.

FTC has attacked suggested list prices before, but in most cases it has aimed at retailers. Last March the commission took the battle to the manufacturer—and won the first round—in a case involving Baltimore Luggage Co. But Baltimore Luggage ticketed some of its products with its prices; Regina does not. Baltimore Luggage is appealing.

Warning. Consumer Reports, published by Consumers Union of U. S., Inc., has been carrying on an intermittent warfare against "phoney" or "fictitious" lists for some time. Three years ago, FTC put out Guides Against Deceptive Pricing [BW Oct. 18'58,p34]; it warned that comparisons of prices should not be used unless the savings claimed are true ones, based on the market price.

This summer, too, Daniel J. Murphy, director of FTC's Bureau of Deceptive Practices, told Electrical Merchandising Week, a McGraw-Hill publication, that any suggested list price was suspect—except the price that "accurately reflects the actual selling price in the area where it is published."

A survey by Electrical Merchandising Week, published in its July 31 issue, showed that many manufacturers have backed away from suggested list, mainly on the grounds that by now it is meaningless. Regina Pres. Lannon F. Mead testified, though, he knew of no competitor in his field who did not use it.

Some makers of small appliances —General Electric Co., for one— have tried to grant advertising allowances only to dealers who did not stray too far below suggested list in their advertising. Sunbeam Corp. told dealers they might lose their dealerships if they advertised too far below list price. Last week Mead conceded that some retailers who compared list price with their own lower prices in their ads "undoubtedly" had received allowances from Regina.

Experts called. To defend its stand that its prices are not fictitious, Regina called on Neil H. Borden, professor of marketing at the Harvard Business School, and Mort Farr, veteran appliance dealer and chairman of National Appliance & Radio-TV Dealers Assn.

Both upheld the view that the manufacturer's list gives the consumer a yardstick to value, a yardstick needed in appliances because an inexpert public can't tell by looking whether one product is better than another. Borden testified that Regina's prices are in line with historical practice; they build in a profit that, according to NARDA, the average distributor and dealer need.

On the key issue of deceptive practices, Regina argued that if the prices aren't fictitious, they aren't misleading. Borden testified that a "few gullible" consumers might construe the list as the going price, but most consumers by now understood the list as an estimate of value.

You can, Mead agreed, arrive at a price simply by figuring costs, adding something for profit, and letting it go at that. But practically speaking, a manufacturer works backward, from retail. He determines at what prices products are moving, puts into his product what he can at that price to enable it to compete, and allows for some profit all down the line.

Varying goals. Whether a retailer takes the full markup depends on what he is after. He may want traffic, Borden pointed out. Then he may whack his price to cost or lower.

In setting a retail price, FTC's lawyer pointed out, the manufacturer may well reach for that fuzzy target of what the market will bear. Set a list high enough, and there's a wide area for bargaining and deals. Mead admitted he had seen "horrendous lists" on some products. Regina argued, though, that a reputable manufacturer can't set his sights too high —nor will competition let him.

What would happen if list prices were thrown out? Mort Farr said he wouldn't know how to price. "I could call up competitors," he said, "and be charged with collusion."

With or without lists, competitive pressures will rule the market. Profit-hungry retailers will charge what the market will bear—or slash prices, for their particular ends. But Regina has no mind to serve as a guinea pig. "If the decision goes against us, we'll appeal all the way," Mead said. **End**

When too much is not enough

Economic theorists ordinarily view the world as a gray but orderly place, inhabited by rational but bloodless creatures called Entrepreneurs, Producers, Workers, Government, Consumers.

Of all these phantoms, Consumers are regarded by

Consumption is hard work, filled with risks and uncertainties; and the competition is intense

the economic theorist as the most passive, most predictable. Program an extra dollar into a Consumer, and he will spend 93¢, save 7¢, give or take a few mills. Raise the price of meat, cut the price of potatoes, and he will eat less meat, more potatoes.

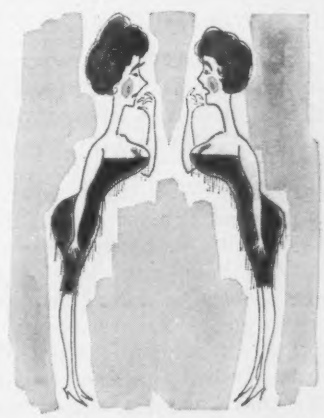
Veblen's theory. Back around the turn of the century, a maverick economist named Thorstein Veblen wrote a book called The Theory of the Leisure Class, in which he sought to show that this picture of the rational Consumer was not in accord with the facts: Let a Society Lady wear a feathered boa, and Working Girls would also wrap feathered boas around their necks, at far greater cost than machine-woven scarves. Raise your price for food and drink and service at a fancy restaurant, and Snobs of various degrees would beat a path to your gilded door, and bribe their way past the maitre d'hotel guarding your velvet rope.

The economists took note of Veblen's Conspicuous Consumers, but ignored them as stupid and trivial exceptions to the general pattern of "rational" consumer behavior. This may have been a defensible position in a world where, for most Consumers, meat and potatoes, overalls, lunch pails, and a Ford in any color as long as it was black constituted the archetypical consumer goods, rather than feathered boas or diamond stickpins.

That world has been disappearing for a long time—as income and leisure and mass communications have grown. In a sense, the postwar world has become one in which everyone has graduated either to the Leisure Class itself (a misnomer, since at least the male members of the class generally work most of their waking hours) or to an income level where he can afford to emulate the Leisure Class, and its fashions.

All-encompassing. In the brave new world of mass consumption and mass emulation, virtually all goods become, in effect, Veblenian conspicuous consumption goods—subject to the whims of style and fashion. This change is unlikely to shock Detroit auto producers, who have employed the annual model change so long that they have begun to wonder whether Volkswagen's opposite ploy of no-annual-model change mightn't have more chic. Nor will it come as a surprise to Madison Avenue or its critics or its clients or its targets.

Nevertheless, the news does apparently come with a jolt to economic theorists. They are faced with the annoying task (now that a few pioneers have noticed what's been going on in the market place) of rebuilding the theory of Consumption to take account of the fact that nearly all goods are luxury-type goods, and that Consumers do not act on the basis of price alone.



The case of accidental bilateral value destruction

Matter of fashion. One of the first of these economic pioneers to notice the change is Prof. Dwight E. Robinson, of the University of Washington, who writes, in the current Quarterly Journal of Economics, that, though fashion is "the subtlest and most volatile form of

In a mass-consumption economy, everybody and everything must be different as well as the same

luxury," and the most difficult to understand, the economist must nevertheless turn to fashion, especially fashion in dress, if he is ever to win "an acute perception of non-necessitous expenditure." For, as another pioneer investigator, Quentin Bell, has observed, the role of fashion in dress is to the economics of consumption what the study of Drosophila, the fruit fly, is to the science of genetics.

Businessmen and marketers may laugh when Prof. Robinson sits down to play upon the theory of fashion demand, but they may be surprised to discover that he has some dazzling and enlightening thoughts to offer. What his theory comes to is this: The essential role of fashion is to create scarcity. It does this by a process of speedy change: What's new must, for a time, be scarce. Fashion change is not a process that is foisted on society simply by the machinations of wily clothing manufacturers, auto producers, or advertising men; it's also demanded by consumers.

Social mobility tends to increase interclass competition in consumption

Feeding the ego. Consumers demand fashion changes in order to make the supply of goods scarce and so gratify their egos. Possessing goods that are scarce, or even unique, serves the ego of most people very well; for some it is the possession of a mink or a Dior dress, for others a Rembrandt or a Miro painting, for others a diamond tiara or an Alfa Romeo.

But not everybody is rich enough for Dior originals or Alfa Romeos, even in an affluent society. Indeed, the problem of finding goods that are scarce becomes much greater in a society in which most people have incomes to support a standard of living well above a bare survival level, and in which chemistry can synthesize excellent substitutes for the scarcest materials, machinery can mass-produce cheaply the once rarest and most painstakingly made products, such as fine lace; and the newspapers, magazines, movies, and television can quickly spread the tidings of what "the best people" —the people you admire and emulate whoever you are—are wearing, reading, drinking, driving. You may not be able to get their unique goods, but modern production and merchandising can imitate them fast.

Emulation becomes the force that makes the economy—indeed the culture itself—spin round. Producers and consumers are caught up in a race to locate the new model of taste, with Producers seeking quickly to imitate it, and Consumers to acquire it before it has lost its scarcity value. To some, this is a form of idiot's delight. But Prof. Robinson considers that, as surely as all cultures have developed their characteristic modes of expressing humanity's "impulsions toward activity," ours has found its own mode "in the great purpose of improving the standard of living (including luxury) through technical and scientific advance" —to which it has added "the unending refreshment of novelty in design." The quest in the mass-production economy is for more goods that are unique.

What's unique? Since goods like those the best people have can be imitated fast and cheaply, and in tremendous number, it gets harder and harder to keep the unique unique or the scarce scarce. The Colonel's Lady and Judy O'Grady are sisters not only under the skin but on top of the skin as well. At any rate, Judy can get a reasonable facsimile for $10.95 of the dress that cost the Lady's Gentleman $300. The quest for honorific scarcity becomes a full-time venture, and a nerve-wracking and subtle operation for Consumers; and Obsolescence comes all too fast to suit even the allegedly rascally Producers, whose new models may become unscarce and therefore undesired—long before the model year is over—and necessitate a speeding up of the expensive redesign and retooling process.

The shock of this wild and rapidly changing world of fashion is even greater for the economist. For, as Prof. Robinson nervously notes, "if the economist comes to admit into his deliberations the actively rarity-minded consumer which fashion theory requires, the discipline may well undergo a readjustment of quasi-Copernican proportions."

This great intellectual jump probably lies at least a couple of generations ahead—by which time we may again be faced with an economy of extreme physical scarcity caused by war or the population explosion—and the old economics will again be valid and no one will have to treat the Consumer as though he were a human being, foolish, proud, snobbish, insecure, egoistic, whimsical, mercurial, and, as everybody in the garment industry knows, impossible.

We have witnessed an acceleration of trickle-down by mass communications

International outlook BW

September 23, 1961

Economic effects of Berlin crisis begin to appear

Not all the economic side-effects of the Berlin crisis have been felt as yet. **In Western Europe, the strain has been taken by the stock markets,** which have been fairly hard hit. **In the U. S., the chief result has been a growing fear of inflation.**

Soon, though, you may be hearing about the cost of Berlin to our balance-of-payments position. The measures taken so far to strengthen U. S. forces in Germany will add about $200-million a year to our overseas military spending. If all the planned measures go into effect, the extra outgoing payments may run at a rate of $350-million a year.

This wouldn't be anything to worry about if the U. S. could count on a strong payments position in 1962. **But the prospects aren't very bright.** With the U. S. economy rising fast, it's almost certain that the U. S. trade surplus will have shrunk considerably by next spring. Exports already are dropping off, and imports are climbing. At the same time, U. S. companies plan to invest more than ever in European production facilities.

By next spring, however, we should be able to count on the International Monetary Fund to relieve pressure on the dollar. In Vienna this week the U. S. has managed to get an agreement that would give the IMF larger resources and more flexibility in supporting the two reserve currencies, the dollar and the pound (page 30).

Kennedy picks his administrator for foreign aid

Pres. Kennedy's final choice for administrator of the new Agency for International Development (AID) is Fowler Hamilton, New York international lawyer.

Hamilton has no experience in the economic development field, but unlike some other Kennedy appointees he has had experience in government going back to 1938. He has held fairly high posts in the Justice Dept., the wartime Foreign Economic Administration, and our London embassy.

According to the White House, **Hamilton is no last resort choice.** He was first in line to replace Allen W. Dulles as head of the Central Intelligence Agency when the latter retires. **The urgent need to fill the top aid job led Kennedy to switch signals.**

The nomination of Hamilton, a Democrat, to run the foreign aid program should end one of the more confusing—and to aid officials demoralizing—chapters of the administration.

Henry R. Labouisse, Jr., head of the old International Cooperation Administration, first was slated for the job. Then the White House decided that he was too much the captive of career foreign aid officials, not tough or dynamic enough. Labouisse now is likely to be named ambassador to Argentina.

Kennedy's next choice was George D. Woods, chairman of the First Boston Corp. and a Republican. But Woods' indirect involvement in the Dixon-Yates controversy raised a storm of criticism from liberal congressmen despite his long experience in international economic development. Woods then withdrew.

The Hamilton appointment strengthens the position of Under Secy. of

State for Economic Affairs George W. Ball. Both men were recruited from the international law firm of **Cleary, Gottlieb, Steen & Hamilton.**

Ball quietly has been divesting himself of day-to-day responsibility for foreign trade, aid, and financial policy. The word is that he wants to be free to step up into Under Secy. of State Chester Bowles' job when the President gives the latter another assignment, as he still is likely to do. Having a trusted friend in the top aid post would make this easier for Ball.

New incentives for going abroad

In the new foreign aid legislation, note the broadened inducements to get private investment moving into underdeveloped countries. **Guarantees against political risks will be extended** to cover losses from insurrection and revolution as well as from war, expropriation, and inconvertibility. "All risk" equity and loan insurance—including insurance against normal business losses—will be offered. Such guarantees will be limited, though, to $10-million per investment and to a maximum of 75% of the total investment involved.

But businessmen take a hard look

It will take more than investment guarantees, however, to induce the majority of U. S. businessmen to put much new money into the underdeveloped countries. Executives are being soured by the general trend of events abroad and by the Administration's development policy.

Take Latin America. **Never since World War II has there been less interest in this area among private investors**—despite all the billions Washington has promised to provide through the Alliance for Progress. Ask a businessman what's wrong, and he'll point to the crisis in Brazil and to Administration efforts to sponsor revolutionary social change and state economic planning.

These businessmen are highly displeased that the U. S. and Cuba were the two countries at Punta del Este that really talked up the need for revolutionary change in Latin America. They fear that attempts to lead orderly revolutions will get out of hand or lead to Cuban-style change.

Development bank filling void in Latin America

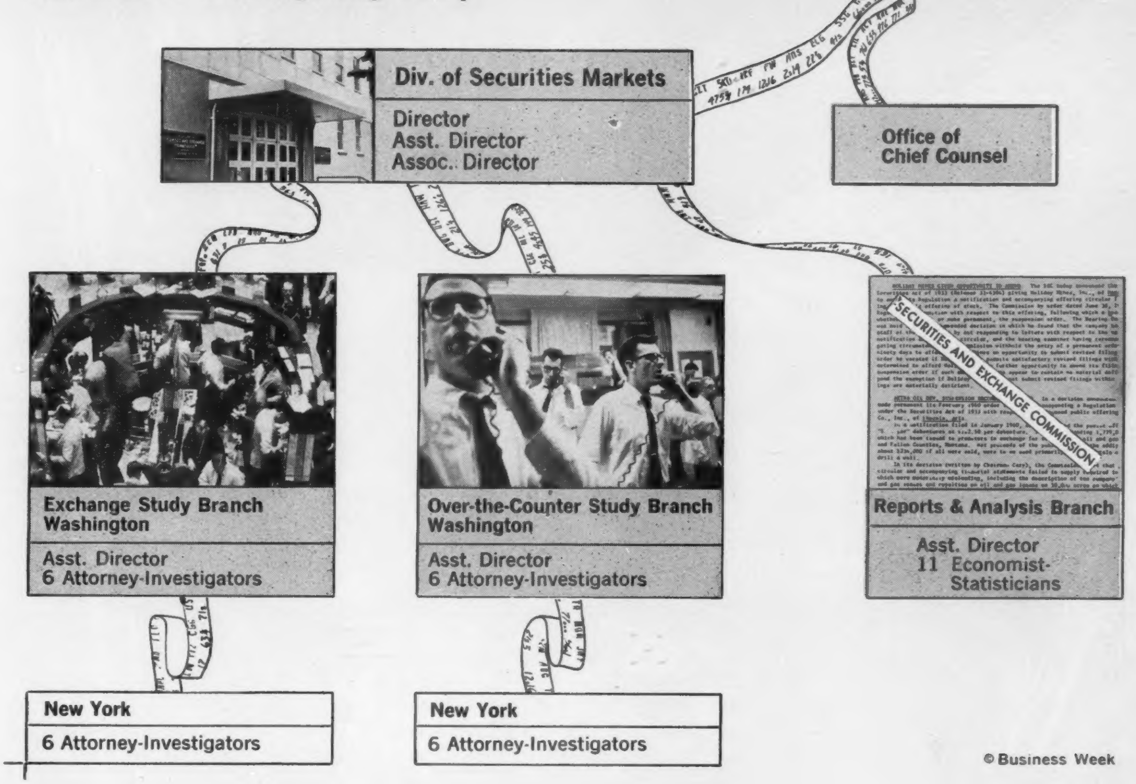
Part of U. S. businessmen's uneasiness may be alleviated by the increasing importance of the Inter-American Development Bank (IADB). **It is looming as the lending power in Latin America** and the organization to coordinate the financial aspects of the Alliance for Progress.

The bank's chief, Felipe Herrera, is generally considered a sound and responsible banker. **He is trying to fill the void in Latin American economic planning** left by a lack of coordination between the Organization of American States (OAS) and the U. N.'s Economic Commission for Latin America (ECLA), led by Raul Prebisch.

OAS lost out when several of its economists quit last year in an internal squabble. Prebisch, an advocate of a strong role for government in economic planning, was turned down at the Punta del Este meeting on the Alliance for Progress when a group of large Latin American nations refused to support the ECLA plan for a unit to supervise planning and loan disbursements.

IADB has the $400-million social development fund put up by the U. S. to start the Alliance for Progress, causing Latin American planners to look to it for loans.

SEC's new investigating setup



THE MARKETS

How SEC market probe shapes up

Commission, planning special staff of 50 for year-long 'study,' shies away from term 'investigation,' but officials see it as first ripple in new reform wave

Congress has authorized and is now voting money for the Securities & Exchange Commission to put together a special investigating staff of about 50 lawyers, economists, investigators, and statisticians (chart). This group will spend all next year conducting an intensive probe of the securities markets.

The way Chmn. William L. Cary and other SEC officials see it, the new investigation is the first ripple of what may turn out to be a new wave of reform. The last wave culminated in the enactment of the Investment Company Act of 1940.

Speculative fever. Since that law was passed, the stock market—including the investment companies—has changed radically in size and character. The SEC, with a smaller staff than it had before the war, is bogged down in rising floods of registration statements, proxy statements, investigations, inspections of investment companies and their advisers.

At the same time speculative fever—much of it admittedly in new issues, small issues, and over-the-counter stocks—has reached proportions reminiscent of the 1920s. Chmn. Cary has told Congress that "we have one of the most frenzied markets in the history of the country."

No one is predicting another 1929-30 type of market collapse. Nevertheless, the congressmen who pushed through the investigation believe that manipulation and market rigging is too widespread for Congress and the SEC to ignore it.

The mere threat of the investigation already has Wall Street walking on eggs. The New York Stock Exchange, for example, is taking a closer look at market letters sent out by brokerage firms, the National Assn. of Securities Dealers is making new demands on its members to clean up their shops, and trading volume on the American Stock Exchange, which has borne the brunt of attacks on market rigging, has fallen sharply.

Nonpolitical. The resolution that led to the SEC study was sponsored by Rep. Peter F. Mack, Jr. (D-Ill.). As chairman of the commerce and finance subcommittee of

the House Interstate & Foreign Commerce Committee, Mack held hearings on the subject in late June and July.

Wariness of a "political investigation" is one reason the job has been given to SEC, with a specially assembled staff. Congressional leaders feared that an investigating committee of Congress might get out of control. The result was a decision for a more professional approach to investigating the stock market.

Yet the findings may result in some fundamental changes in the way Wall Street operates. There is a possibility, for instance, that the SEC will recommend splitting off investment banking functions—which include underwriting—from brokerage. There will probably also be a call for stricter regulation of "insider activity."

A great deal depends on the man who heads the investigation. As one insider put it, "if he just wants to conduct a series of fact-finding surveys, he can keep himself occupied until doomsday without changing anything. If he wants to make headlines, those are available, too. So there's no telling in advance just which way the investigation will go."

SEC officials emphasize that while they are directed to conduct "a study and investigation," they are making a point of calling the project a "study." They shy away when they can from the criminal-hunting implications of the word "investigation."

I. The investigators

The new investigating staff will be set up as an SEC division to be called "the Division of Securities Markets."

Its director and staff are being recruited outside the civil service, for a number of reasons. One is that the group is supposed to be disbanded after meeting the January, 1963, deadline fixed by Congress for completing its reports and recommendations.

Insiders say privately, however, that the investigators can't possible finish by then.

Broad. The charter given to SEC by the resolution is considered broad enough to cover the entire market—the exchanges, the over-the-counter market, operations of brokers and their salesmen, mutual funds, pension funds, and the like.

The resolution directs the SEC to "make a study and investigation of the adequacy, for the protection of investors, of the rules of the national securities exchanges and national securities associations, including rules of the expulsion, suspension, or disciplining of a member for conduct inconsistent with just and equitable principles of trade."

Top man. The new director charged with this job will be a "big name," if Cary gets the man he wants. Cary is keeping his cards close to his vest until he gets the funds. The House has voted $350,000 of the authorized total of $750,000. The Senate was to act this week.

Odds favor a college professor or president "or someone of that type." Cary wants a man with sufficient stature to start off with the respect of Wall Street and Congress. If he is found, then his second man in the division would likely be someone with professional background in the securities markets.

Although the idea is to get a man who stands at "arm's length" from Wall Street, the SEC does not want someone who hasn't a pretty good notion of how the markets work. Thus, it is not an easy job to fill.

Important roles. In any case, Philip A. Loomis, Jr., long-time director of SEC's Div. of Trading & Exchanges—which has the year-in, year-out job of regulation—and Manuel F. Cohen, director of the Div. of Corporate Finance, will play a role in the investigation.

Both men have been helping with the organization of the new investigating group, and their advice will be influential. Cohen has just been nominated by Pres. Kennedy to fill a vacancy on the SEC itself; this will give him a more powerful office from which to speak.

II. How they'll work

Cary plans to have his investigators use normal SEC methods—questionnaires, interviews, digging through the books. Officials see no public rows to catch headlines; Cary, however, will file interim reports, which will put the investigation into the newspapers now and then. But public hearings haven't been ruled out.

The pattern may well be the present SEC investigation of the American Stock Exchange, which grew out of violations by the specialist firm of Re, Re & Sagarese. The SEC sent out detailed questionnaires to exchange officials and members, and the information is being developed with public fanfare. The report is scheduled by yearend.

Not exempt. The fact that this investigation will be over by yearend doesn't mean the ASE will be free from probing by the new division. On the contrary, this first report is likely to lay the foundation for further investigation.

This is apt to be true, too, of the study of investment companies being completed by the Wharton School of Finance and Commerce of the University of Pennsylvania under SEC contract. The report on the two-year study is expected to be published in the next few months.

III. What will be covered

The investigation is directed specifically at the New York and American stock exchanges and the NASD, which act as agents for the SEC in policing their members.

Officials of these organizations say their rules are stricter than the law or SEC requires. So the big questions are:

Where have these rules been proved inadequate?

What new enforcement powers do these groups or SEC need?

Where do the rules of the exchanges fail to cover given situations that obviously are evil?

Spotlight. Some areas that will get a close going-over include:

- The over-the-counter market. Lack of information about volumes and prices contributes to manipulation, and there will be much emphasis on new issues, and the "after market"—what happens after the initial offering; the probers will look into pre-registration publicity, who places initial quotations, how prices are arrived at.
- Brokerage standards, and the "triple standard" charged by one insider: "They act according to Hoyle in Big Board operations, play 'Big Casino' on the ASE, cut corners in the over-the-counter market."
- Branch offices and part-time salesmen—their vast increase, and the policing problem. The NASD, for instance, is supposed to supervise 4,600 firms employing over 93,000 salesmen, 22,500 of them part time. Question: Does NASD need more authority, perhaps subpoena power?
- Broker-dealers who don't keep proper books or don't keep them up to date.
- Mutual funds and investment companies—their arrangements with and fees paid to investment advisers. Also, the swap problem—that is, the tax-free exchange of stock for mutual fund stocks.
- The use of credit, and how to regulate bank borrowing that gets around exchange margin requirements. Also, the use of credit in the over-the-counter market, now unregulated.
- Insider trading rules and their enforcement.
- Frauds in small issues and unlisted stocks. **End**

Wall St. talks...

about Delta Air Lines, credit card merger talks, new medical fund, Firth Carpet Co.

Shares of Delta Air Lines, Inc., sold off sharply this week to the 40 level (1961 high: 60⅝; low: 27⅞) on reports that it was contemplating an equity financing to pay for new jet plane equipment. Delta, which is one of the few airlines showing increasing earnings, refuses to say what it is planning, but some insiders think that the premature disclosure, which knocked down the stock price, may lead to second thoughts about a stock offering.

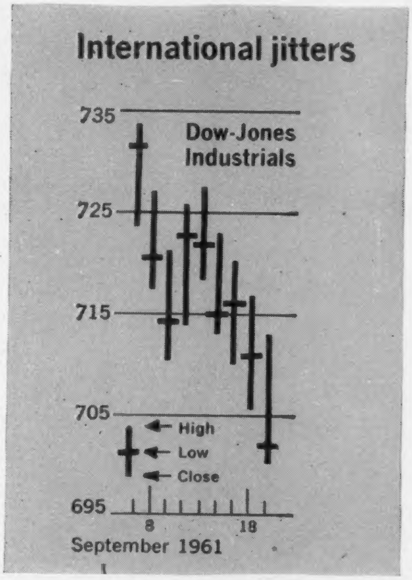
Companies in the **competitive credit card industry** are jockeying for leadership. Diners' Club, Inc., said it was talking merger with Hilton Credit Corp., which runs Carte Blanche, although Benno M. Bechold, Hilton's president, who had earlier been negotiating with American Express, professed ignorance of any discussion. Both Amex and Diners' seek Hilton because it offers the hotel chain (which provides 40% of Carte Blanche volume) and a big tax loss, but they have also been holding intermittent merger talks with each other. Meanwhile, Amex raised its fee for its card from $6 to $8 a year, which compares with Diners' $5.

Specialized mutual funds have had a tough go of it; several have folded into parent mutual fund groups. Nevertheless, there'll be a new one entering the field soon: Medical Industries Fund, which will invest in companies engaged in medical care. Sponsors think a medical fund can prosper, partly because of burgeoning medical costs, partly because of profits for companies providing medical goods and services.

A proxy fight may be brewing at Firth Carpet Co. A group of stockholders reportedly have been buying stock to try to block the proposed merger between Firth and Mohasco Industries, Inc. The companies agreed last month to a merger calling for one Mohasco share for each 1½ shares of Firth. The dissident group thinks this highly unattractive, since Firth is now selling at $7½, Mohasco under $10.

In the markets

BW



Growth stocks lead general decline as investors find big worries

Stock prices dropped under selling pressure this week as investors appeared perturbed by the international scene and a feeling that Washington was taking an increasingly anti-business attitude. The declines were most marked in the growth stock group, which has been falling for some time, but it also affected the cyclicals and blue chip issues that in recent months have enjoyed an increasing amount of attention.

According to those who follow the market's technical action, the drop in prices may bring out still more selling. Yet even the most bearish analysts see the current decline as both temporary and limited. Unless the Berlin crisis results in a shooting war or the domestic economy fails to maintain its strong uptrend, the prospect is that equity prices will reverse themselves and hit new highs.

The next leg of the bull market is bound to be a selective one. Investors are extremely sensitive to any unfavorable developments. Honolulu Oil, for example, tumbled sharply this week on news that the Justice Dept. had filed an antitrust suit against sale of its assets. Copper stocks were hard hit when scrap prices were cut.

At the same time, there is demand for stocks that promise to do better than expected; Ford shot up this week because the acquisition of Philco seems likely to broaden its earnings base.

Empire National and E. L. Bruce tie the knot despite objection to marriage terms

The merger between Empire National Corp. and E. L. Bruce Co. went through on schedule this week after a suit, brought by C. Arthur Bruce to prevent a shareholder vote, was thrown out as invalid. **Bruce, who was chairman of E. L. Bruce and held some 5% of its stock, had charged that the terms of the merger, calling for an exchange of 2¼ shares of Empire for each Bruce share, were unfair;** he was opposed by the entire Bruce board, including the president, his brother Edwin L. Bruce, Jr.

It's expected that Bruce will now demand an independent appraisal of the merger terms, the usual procedure for a dissenting stockholder. This means he will eventually get cash for his shares. But whether he will do better than the announced terms is problematical. As far as Empire is concerned, it will mean less dilution if cash is provided instead of stock.

In the market, Bruce's suit had little impact. Empire, which trades on the American Stock Exchange, sold in the 28-30 range this week; and Bruce, which is thinly traded (Empire holds over 81% of the 314,600 shares outstanding), was quoted at 53 bid, 60 asked, in the over-the-counter market.

Competition for California issues raises questions on traditional sales pattern

The traditional way of selling municipal bond issues was under attack this week. In the wake of two successful distributions of $200-million worth of California bonds within a month by William S. Morris & Co., a small and new New York bond house [BW Sep.16'61, p111], underwriters questioned whether more competition is needed in big issues and, further, whether current selling tactics are outdated.

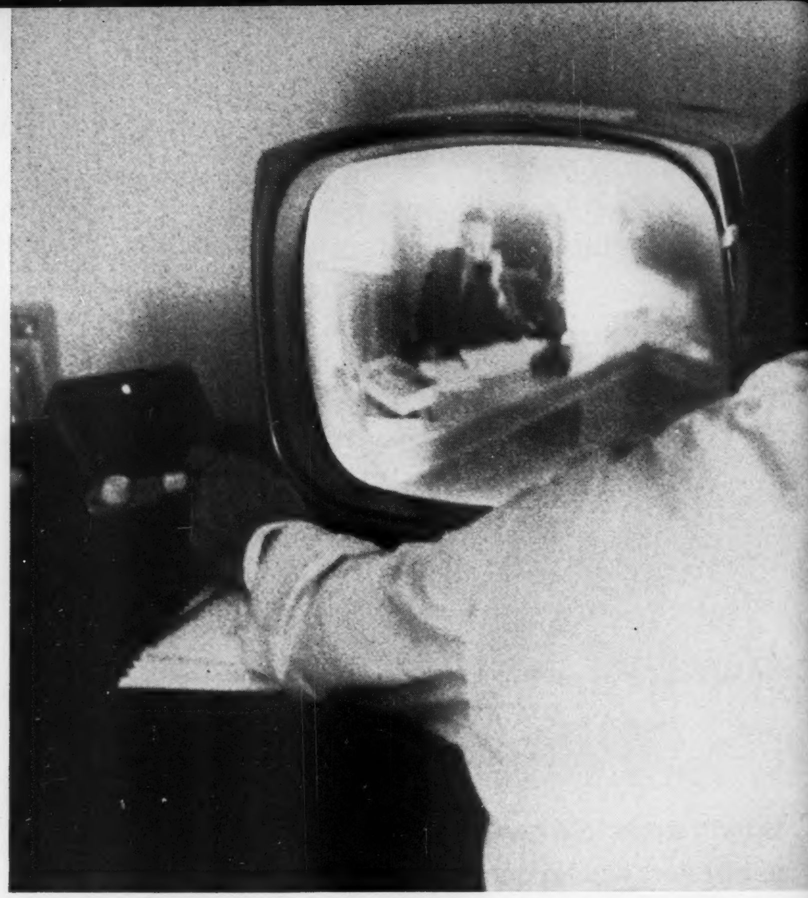
Morris proved that an alert bidder could compete with the single-bid approach for big issues—that is, with a big underwriting and selling group mustered under a single manager. In Morris' case, he bucked the Bank of America twice—with the help of computers in figuring his bid.

Some dealers now think that Morris' success will lead other houses to compete more actively. So far this year, aside from the two California issues, there have been 11 issues of $50-million or more each. Seven of these received only one bid, one got two, three others were sold through negotiation. **Indications that more competition is on the way came with the entry of Glore, Forgan & Co. as a bidder for $100-million of Illinois bonds to be sold next week.** Glore, Forgan will bid against the traditional account headed by Chicago's big banks.

Morris' selling methods may also get a quick test. Normally, underwriters give their salesmen a specified number of hours to gather orders—which have equal priority when they are filled. **Morris, though, employed a broker, Drake & Co., to accept orders on a first-come, first-served basis.** Both issues sold out quickly.

Morris made dealer participation attractive by granting discounts of ½ to 1 point ($10 on each $1,000 bond). Trade discounts normally run smaller. This shrank Morris' profit to $600,000 from the $1-million he made in selling the August issue.

Red team's president, Jack Avins . . .



holds staff meeting and answers phone calls under eye of TV camera (above) and

Jerome Barnum, himself playing a role, phones one of the participants. Such calls he terms "action triggers."

MANAGEMENT

Putting executives in the goldfish bowl

With closed-circuit TV and group analysis, top men at RCA are observed as they react to simulated problems. The idea is not to judge the men but to make them better managers

Ten executives of Radio Corp. of America's RCA Laboratories Div. last week abandoned their campus environment in Princeton, N. J., for a garish motel in Westchester County, N. Y. There, they moved into an executive suite of converted bedrooms and took on the staggering problems of the mythical Research & Development, Inc.

While wrestling with a host of simulated management situations, they often seemed to forget they were play-acting. Fake memos and letters were carefully answered or disgustedly assigned to the trash basket. Telephone calls and staff meetings with other thespian executives provided personality clashes and a struggle for influence. A "hysterical" secretary seemed to bring real concern to the faces of some participants.

All the while, as in George Orwell's 1984, Big Brother was watching over closed-circuit TV and making notes of what each man did (pictures). In this case, Big Brother was Jerome Barnum and his team of management consultants and industrial psychologists. Their purpose was not to reward or punish

Jerome Barnum, consultant who set up the simulation. Screen at right shows . . .

blue team's president, George Morton

but to learn enough about each executive's strengths and weaknesses so they could help him become a better manager.

Concentrated experiences. Last week's program was the third within a year that Barnum has put on for the top brass of the RCA Laboratories Div. His consulting firm, Jerome Barnum Associates, ran one other session for a West German company.

Few of the elements of what he calls "experience compression" are new to management training specialists or psychologists, but the package is certainly novel.

At its simplest, the Barnum program uses the familiar in-basket, out-basket technique to see how the executive handles problems that come over his desk in written form. In addition, the daily briefings for the participants on the situation at their fictitious Research & Development Inc., provide much the same learning experience as the case method approach that was pioneered for management training at the Harvard Graduate School of Business.

On the psychological side, the executives engaged in various role-playing situations as they acted as members of R&D, Inc.'s management (psychologists can learn a lot

Private evaluation session, the morning after their turn as presidents, brings together Avins (far left) and Morton (far right) for review by Barnum, facing camera, and Dr. Gilbert David, second from left, an industrial psychologist.

Watchful, Dr. David (standing) and management consultant Jack Wolff attend a meeting of one of the teams.

about some one when he is acting out a part in this way).

After the play-acting period each day, the executives also had a meeting—in a room dubbed the grinder—that was much like a group therapy session. Here, under the skilled prodding and guidance of an industrial psychologist, they analyzed each other's behavior.

Simulated crises. Despite the varied training and psychological techniques used, the basis of the program was the simulation of business situations the executives faced each day. These were realistic and covered a wide range of management problems.

On Monday last week, for example, R&D, Inc., was jolted by the loss of 20% of its sales when the Air Force canceled a prime contract. Earnings started slipping; by midweek the situation was critical. The president of the parent company—R&D, Inc., is a wholly owned subsidiary—was rumored to be considering selling the subsidiary or spinning it off as a nonprofit laboratory. Key employees, some of them played by Barnum's staff, were involved in industrial espionage; others quit suddenly. Customers and stockholders made nasty telephone calls.

But by the end of the week, the tide had turned. Management had cut the fat out of its operation. Sales were rising, and an improvement in profit margins was expected by the yearend.

Not quite a game. In a way, "experience compression" is like the business games that are becoming popular in many phases of management training. Games, however, tend to involve a great deal of data and complicated models of a company or competitive situation—many use computers to keep track of things. And they usually end with a winner or loser, decided according to measurable quantities such as profits, inventories, investment, or sales.

While Barnum splits his trainees into two teams to attack the same problem, he is primarily concerned with the way each man handles himself. The executives worry less about numbers than about how they react to situations and people and about how well they organize their work.

How it's played. The mechanics are simple. Each team of five takes on the roles of the president and four vice-presidents of R&D, Inc. Each day they change roles, so every man gets a chance to be president. At the beginning of each session, everyone is briefed on the company's condition that moment, and each man gets private information about his department and responsibilities—it's up to him how much he tells the others. Each then goes to his own office and starts working.

Teams, like company managements, tend to develop personalities of their own, although they are all attacking the same problems.

Last week, for example, one team spent most of its time in staff meetings, while members of the other one usually were in their offices dictating to their secretaries or talking to visitors. Each day's president can exert a great influence on his team—one man seemed to be concentrating on ways to fool the home office.

The simulation phase of the program extended until after lunch. The afternoon and often most of each evening were spent in the "grinder," where each man's every move was discussed. As it turned out, the purely management matters, such as how the presidents set up their organizations, were handled quickly. Then the fireworks began as the psychologist probed the reasons why each man acted as he did.

Bit of a shock. Usually, the initial reaction of a group is one of shock over having personal problems and motives brought into the open. But most of last week's participants say they got over this hurdle quickly.

By Wednesday, however, one man felt the psychologist had gone too far and his motives should also be analyzed by the group. He started on the attack only to find some of his fellows questioning the "real" reason for his own actions.

The verbal melee lasted for hours as the latent amateur psychologist emerged in several of the participants. At dinner that night, while

major wounds of the afternoon seemed healed, some tension remained.

Basic questions. Participants in last week's exercise raised two major questions about the Barnum management training program: Was it an invasion of an executive's privacy to be exposed to this kind of semipublic probing of his personality? Did this kind of training do the company any good?

The first question admits of no easy solution, since there is no universally accepted definition of what areas of an executive's life are his own business. Often he must take extensive psychological tests before being hired, or his wife may be interviewed by the sales manager. Sometimes companies even hire private detectives to run a thorough check on his past life.

Besides, RCA Laboratories' personnel manager, Edward Schulz—present at all the sessions—insists that the Barnum program is not intended as an evaluation technique for advancement. It is purely a learning device, he says. Most of the executives say they didn't feel imposed on, but they admit that the whole idea took some getting used to. One man added that nobody had to open up if he didn't want to but that even the most reticent would benefit by finding out what others thought of him.

Value to RCA. The benefits of the program to RCA are also difficult to measure. As with all management training, there is no easy way to evaluate results in dollars and cents. But the price tag of $10,000 for the week is money well spent, according to James Hillier, RCA vice-president and head of the laboratories.

"This Barnum thing leaves a mark," says Hillier. "My executives bring up things they learned here quite regularly, and there are fewer personal traits getting in the way of discussion."

The program is also credited with showing RCA Laboratories executives, most of whom are scientists who came untrained to management responsibilities, that management decisions cannot be made in the same way as scientific ones—the human factors can be often all-important.

Participants in last week's sessions agreed, almost to a man, that they would be better managers because of the course. One summed up the feeling of most: "As scientists, we were all very skeptical of this thing when we arrived. Now I think we all feel that we have gotten something out of it, but only the future will tell how much." **End**

In management

BW

Fifth of companies on Big Board list help employees to acquire stock

It's getting harder and harder to tell an employee from a stockholder. About one-fifth of the companies listed on the New York Stock Exchange now have some sort of employee stock-acquisition plan, a new study by the Exchange shows, and more than 1.6-million employees (about half of those eligible) are participating.

Most of the 248 plans offered by 233 listed companies are for salaried employees, although hourly workers are sometimes included. Most popular with the employees are profit-sharing plans; they have had nearly a 100% participation rate. In 23 of the 39 listed-company profit sharing plans, employees make no contributions to the funds, which are invested in company stock and sometimes other securities. Under the other 16 plans, employees are either permitted or required to contribute up to 10% of their salaries.

Most popular with the companies are stock purchase plans, under which companies absorb fees but usually do not contribute toward the purchase price of the stock. There are 114 such plans among NYSE members, with 31% of the eligible employees participating. They are particularly common among utility, petroleum, and natural gas companies.

The 80 member-company savings and thrift plans (under which companies contribute from 25¢ to $2 in common stock to match every salary dollar set aside by the employee) cover the greatest number of employees —753,000. The participation rate is 76%.

These three types of plans account for more than 90% of the stock-acquisition schemes reported in the NYSE study. Other plans used include the Exchange Community's Monthly Investment Plan, stock retirement plans, and stock bonus plans. Plans for executives only were not included in the survey.

Executives lean to organization men, not innovators, in picking aides

For years, top executives have been denying that they want so-called organization men as their subordinates. Yet in a Harvard Business Review survey, 4,000 subscribers, choosing between 56 pairs of possible managerial personality traits, preferred bashful, retiring, or apathetic subordinates more often than intolerant, argumentative, or rebellious individuals. **Top management men showed even greater preference for these qualities than did lower-level managers.**

Both sets of qualities, of course, were viewed as undesirable; the question was which were more so.

In choosing between pairs of desirable traits, the executives also tended toward the organization man type. Their choices ran to subordinates who were systematic, precise, careful, orderly, painstaking, or punctual more often than to those who were assured, capable, independent, tolerant, or courageous.

Not surprisingly, specialized executives tended strongly to select the stereotype traits commonly associated with their functions. Thus, marketing executives wanted their subordinates to be attractive, energetic, enterprising, and sociable; financial executives favored men who were accurate, cautious, dignified, discreet, and precise.

The preference of executives in all categories for subordinates who are not trouble-makers—even if they are not particularly useful—raises the question of how important conformity is in the life of an organization, says Prof. Lewis B. Ward in summarizing the survey results. **If these are the qualities management is looking for, he asks, where will business find aggressive innovators in the future?**

Cold war seen bringing Army nearer to civilian management methods

The protracted cold war has had a profound effect on the Army's management methods. One result: The General Staff structure has tended to approach the line structure of private industry. This is the major conclusion of a study by Waino W. Suojanen of the U.S. Naval Postgraduate School as reported in the Journal of the Academy of Management.

The changes are coming about because the traditional General Staff setup was best suited to the "action-oriented" outlook of a shooting war rather than the "routine-oriented" outlook of a large standing army. The impact of rapidly advancing technology has also meant an increase in long-term planning that is very different from traditional military planning problems.

According to Suojanen, the system of advanced training and job rotation long used for staff officers is likely to turn out tacticians instead of well-rounded managers. This has thrown many management functions into the hands of controllers and led to the feeling that the "bookkeepers are running the Army."

If he asks you to put it in a memo, maybe it means he considers you beneath him

The higher up the executive ladder a man gets, the more he likes to make his decisions in face-to-face meetings instead of on the basis of written communications. This is the major finding of a study of the executive and his mail made by American Photocopy Equipment Co.

Interviews with more than 200 executives in New York, Chicago, and Los Angeles also indicated that managers usually use the telephone to deal with their peers or subordinates, but they would rather have subordinates transmit information to them in memos.

In general, the study reports, the mail an executive gets and the way he deals with it are often a reflection of his status and the status of his organization.

Personal business

September 23, 1961

Broadway promises good shows for new season

Optimism hovers over Broadway like a rainbow each fall. But this year it may be more justified than in some recent lackluster seasons—the roster of coming shows looks bright.

Here's a rundown of the attractions—opening through Dec. 31—that have drawn favorable comments from script readers and try-out viewers:

Sail Away, Noel Coward's light-to-lighter show for which he composed both book and music, is frothy stuff—the tunes are fine, though, and Elaine Stritch is excellent (opens Broadhurst, 235 West 44th St., Oct. 3).

Mimi Benzell, Robert Weede, and Molly Picon star in **Milk and Honey,** a musical about some Americans visiting Israel; it has chalked up some good pre-Broadway reviews (Martin Beck, 302 West 45th St., Oct. 10).

How to Succeed in Business Without Really Trying takes some adroit shots at businessmen—score by Frank Loesser, book by Abe Burrows, with Rudy Vallee as the company president and Robert Morse as the eager junior executive (46th St., 226 West 46th St., Oct. 14).

Musicals vary in setting

Set in present-day South Africa, **Kwamina** (meaning "born on Sunday") has music by Richard Adler (**Pajama Game** and **Damn Yankees**). The book got mixed reviews out of town, but dances staged by Agnes De Mille are stunning; with Sally Ann Howes (54th St., 152 West 54th St., Oct. 23).

Kean is a musical based on the life of 19th Century British actor Edmund Kean; star is Alfred Drake—Boston reviews were excellent (Broadway, 1681 Broadway, Nov. 2).

The Gay Life takes place in Vienna in 1900, is adapted from Schnitzler's **Affairs of Anatol**—score by Arthur Schwartz and Howard Dietz, with Italian star Walter Chiari and Barbara Cook, who scored in **Music Man** (Shubert, 225 West 44th St., Nov. 18).

Derelicts inhabiting New York's streets come alive in **Subways Are for Sleeping**—music by Jule Styne, book and lyrics by Betty Comden and Adolph Green, with Sydney Chaplin (Dec. 26).

Revues, comedies for laughs

Three small revues look good. **From the Second City** clicked in Chicago and Los Angeles—eight actors do journalese satire, largely in impromptu style (Royale, 242 West 45th St., Sept. 26). **An Evening with Yves Montand** (Golden, 252 W. 45th St., Oct. 24) and **Mort Sahl "At Nine O'Clock"** (Golden, Dec. 26) are one-man offerings.

Blood, Sweat and Stanley Poole is a comedy of peace-time Army life, with Darren McGavin; try-out reviews were good (Morosco, 217 West 45th St., Oct. 5).

Eileen Heckart stars in **Everybody Loves Opal,** a comedy by John Patrick, who wrote **Teahouse of the August Moon** (Longacre, 220 West 48th St., Oct. 11). Praises on the script are in, too, for **Shot in the Dark,** a comedy mystery starring Julie Harris (Booth, 222 West 45th St., Oct. 18).

A Cook for Mr. General is a wild, laughable farce about a GI who gets into trouble by literally tossing people over his shoulder—including generals; with Bill Travers (Playhouse, 137 West 48th St., Oct. 19). Art Carney appears in **Age of Consent,** a human-interest story of a father whose daughters go off to college (Biltmore, 261 West 47th St., Dec. 21).

Personal business Continued

Serious dramas opening, too

Look, We've Come Through is an American version of **A Taste of Honey**—about some confused characters, but with an optimistic ending (Hudson, 141 West 44th St., Oct. 25).

The author of **Dial M for Murder,** Frederick Knott, has come up with a psychological thriller called **Write Me a Murder,** with Kim Hunter (Belasco, 111 West 44th St., Oct. 26).

Michael Redgrave will star in **The Complaisant Lover,** a triangle love story by Graham Greene—this was a hit in London (Barrymore, 243 West 47th St., Nov. 1).

Paddy Chayefsky's play **Gideon** tells of an angel of God who influences the life of a simple farmer, set in Biblical times—this could be a season highlight; Fredric March (Plymouth, 236 West 45th St., Nov. 9).

A Man for All Seasons was a dramatic success in London—based on the conflict between Sir Thomas More and Henry VIII, it stars noted British actor Paul Scofield (ANTA, 245 West 52nd St., Nov. 22). Tennessee Williams' **The Night of the Iguana** has Bette Davis and Margaret Leighton —about some highly unusual characters, it is set in Acapulco (Royale, 242 West 45th St., Dec. 28).

Insurance for young marrieds

More and more life insurance policies are being geared to special age groups [BW Aug.26'61,p90]. **Now a new package aimed at young married couples has been introduced by Equitable Life Assurance Society.**

The policy pays its full face amount at death of the insured, and then pays the widow or children, for a period up to 20 years, $25 a month for each $1,000 of face coverage. Premiums cease at age 65. Cost at age 30 ranges about a third more per $1,000 than a regular straight life policy.

House sitters

A new service to the owners of vacation homes in Aspen, Colo., is being offered by a local real estate broker. You might want to check on this if you own a summer place—a **similar plan may be available or appearing soon in other holiday spots.**

While you're away, men from the John Doremus firm visit the house weekly in summer, twice a week in winter for a $20 monthly fee. **They check weather damage, furnace fuel, appliances, and do minor repairs.** If the house is leased, they keep accounts and send you a monthly statement. For an additional fee, they will close down after the season—drain water pipes, cover furniture, etc.—and open the house again before your next vacation.

Longer-lasting auto tires

If you are in the market for a 1962 car, you may want to inquire about having it fitted with a new-type tire said to give 35% more tread wear (and possibly up to 90% more, if the present process is improved).

Goodyear Tire & Rubber Co. will start making the tires next month, using a synthetic rubber called Budene. Other concerns—**such as Firestone, U.S. Rubber, and B.F. Goodrich**—are coming on the market with similar products under other trade names.

The new rubber, it is claimed, has extremely high abrasion and aging resistance, **resulting in less danger of blow-out.** (All snow tires made by these companies will contain it.) Generally, prices stay the same.

Universities join city in improving area

Their spending on expansion in Cleveland campus area cuts the city's net cost for an urban renewal that helps to rehabilitate surrounding neighborhoods

Many great universities are situated in cities, and in older parts of cities, at that. They're cramped when they need to expand; they're dismayed as the neighborhoods around them deteriorate, as older parts of cities tend to do.

On the other hand, they don't pay taxes on their real estate, and they are likely to get little sympathy at City Hall when they try to do something about breaking the ring of rundown neighborhoods. So anything that puts town and college on the same side in a rehabilitation project can have a revolutionary effect on civic development. A 1959 amendment to the urban renewal law is just such a catalyst.

Cleveland is getting under way with one of the most ambitious programs under this form of urban renewal—one that aims at giving new life to a cultural center of universities, museums, hospitals, and institutes.

University Circle. In Cleveland, these institutions are intensely concentrated. The 488-acre area called University Circle contains 34 institutions including such well-known ones as Western Reserve University, Case Institute of Technology, Cleveland Orchestra, Cleveland Museum of Art, Cleveland Museum of Natural History, Cleveland Institute of Music, Cleveland Institute of Art, University Hospitals, Mount Sinai Hospital, and Western Reserve Historical Society.

University Circle (picture) is a setting of trees, lawns, shrubs, and ponds. But the postwar development of the surrounding neighborhood has run to deteriorated housing, traffic snarls, and rising crime rates. Drifters have taken over the park benches; faculties and students of the educational institutions have found the environment increasingly unpalatable.

Meanwhile, the universities and institutes have had to expand, and they soon found it vital to work together in doing it, rather than building without regard for the area as a whole.

Working together. In 1952, nine institutions took the first step toward eventual areawide cooperation. They formed the University Circle Conference Committee to tackle specifically the problems of public transit and parking. This group provided off-street parking, got the city to build a new rapid transit station for the Circle.

Problems of harmonizing building plans and expansion needs remained to be solved, and the three largest institutions—Western Reserve, Case, and University Hospitals—banded together to consider what to do.

They were still brooding in 1955 when the means of initiating action fell into their laps. Dr. T. Keith Glennan, president of Case and subsequently Pres. Eisenhower's space administrator, had a call from Mrs. William G. Mather, widow of the longtime head of Cleveland-Cliffs Iron Co.

"Mrs. Mather came into my office one day with a clear and direct question," Dr. Glennan recalls. "She looked at me and said: 'How long are you going to let this go on? You are in the process of letting a beautiful thing be spoiled. It is time for you to find an outstanding city-planning firm and put the problem to them.'"

With that, Mrs. Mather gave Dr. Glennan a check—he won't say for how much. It was enough, though, to be the seed of a growing movement. Dr. Glennan got together the University Circle Planning Committee, composed of 30 top businessmen, and the committee hired Adams, Howard & Greeley of Cambrige, Mass., to make a planning study.

The firm was charged not only with planning expansion of the 34

New elbows old in University Circle: a new Western Reserve building and Severance Hall, home of symphony.

Neil J. Carothers, president of University Circle Development Foundation, sticks close to his 20-year plan.

Development foundation set up to carry out an ambitious 20-year plan of expansion . . .

Story on page 177

institutions in the Circle but also with providing for integration of the cultural community with an improved surrounding neighborhood.

20-year plan. In August, 1957, the planners turned in their report. They proposed a 20-year plan that would cost the institutions $140-million in 1957 dollars: $110-million for buildings, $15-million for land, $10-million for parking facilities, $5-million for common costs such as landscaping.

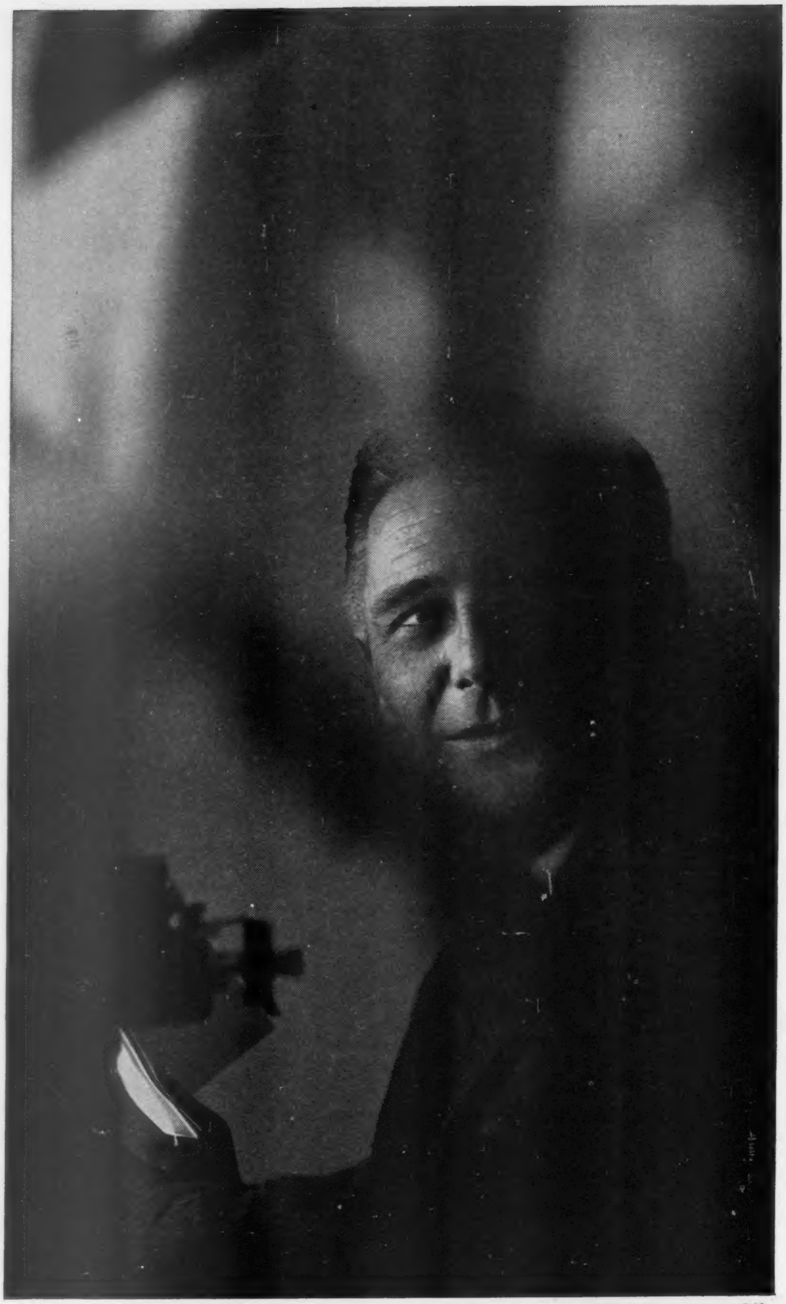
To administer the plan, the firm suggested a central organization that could qualify for tax-exempt gifts. The University Circle Development Foundation was set up, with Neil J. Carothers, a construction company vice-president, as president. The foundation has received $8.5-million from companies, individuals, and other foundations.

Pooling the chores. The foundation inherited projects that were already under way by individual institutions in the group—roads, parking facilities, building additions, demolition of old structures, acquisition of land for expansion. Completion of this phase of the 20-year plan opens the way to the next stage: more of everything.

The foundation approves or disapproves all plans for buildings, and it does all the acquiring of land. It buys from the private owners, resells to member institutions at a price based on the past year's average paid to private owners. Land willed or donated to an institution is also put into the pool and repurchased by the institution, helping to bring down the foundation's average cost for land and, thus, the resale price to all member institutions.

Members of the foundation find that this arrangement helps to keep land costs down in general, and particularly to buffer them against "holdup" prices that property owners might demand of a given institution.

City slum clearance. Meanwhile, the city was talking about slum clearance in a limited area outside University Circle. Carothers joined Julian H. Levi of the University of Chicago and other college officials in persuading Congress to adopt Section 112 as an amendment to the Housing Act of 1949. When this amendment passed in 1959, Car-



others and his group were able to induce the city to consider a much larger urban renewal plan.

Section 112 permits a city to claim as part of its contribution to an urban renewal project (usually about one-third, in cash or in value of such public works as schools, streets, and sewers) any money spent by a university for its own expansion. This brings the city's share well below one-third.

Because the business of city rebuilding is not a traditional one for universities, only a handful such as Chicago, Columbia, and Pennsylvania had gone into it before, collaborating with their city governments to renew university neighborhoods under existing federal and state laws. But the addition of Section 112 in 1959 encouraged others to think in such terms by offering cities an incentive to work with them.

At the foundation's urging, the city hired planning consultant Jack Meltzer, who had been director of the University of Chicago's South East Chicago Commission, to study renewal of a broader area.

Two schools help. The result is a Section 112 renewal project for an area just west of University Circle, in which $1.8-million spent by Western Reserve and Case for their own capital improvement within the Circle will be counted as part of the city's share.

This item of university investment has great leverage, since practically every dollar of an investment the colleges had to make anyhow is matched at double strength by the federal Urban Renewal Administration. URA originally earmarked $10-million for its two-thirds share of the Cleveland project, but it will doubtless wind up granting more than that. The city is already planning $4-million worth of improvements such as schools and sewers, besides the $1.8-million investment by Case and Western Reserve.

The area to be renewed has relatively few real slum properties but many buildings need rehabilitation. The city wants to take care of both problems in its Section 112 project, to build public housing, to provide parks and playgrounds, and to invite private developers to put up high-rise apartments and stores.

Work may begin before yearend; URA's regional office in Chicago is now reviewing the city's application. Eventually the city wants to double the renewal area. In all, it would like to demolish 3,500 housing units and stimulate the rehabilitation of 8,500 others by demonstrating how a neighborhood can be given a new look. **End**

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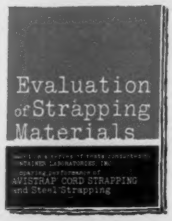

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Monroe high school band pauses before bursting into music at ceremony to welcome S.S. Vire and its cargo of Renault cars to the small but enthusiastic port city.

Small port lands Renault

Monroe, Mich., talks auto maker into using Lake Erie port as receiving site

Last week a 17-year-old former Liberty Ship, carrying a cargo of 1,041 Renault cars, eased its way up the Raisin River channel to dockside in Monroe, Mich. To the city of 23,000 located at the western tip of Lake Erie between Detroit and Toledo, the arrival of the French Lines, S.S. Vire via the St. Lawrence Seaway signaled Monroe's debut as an international port.

Victory. The Vire's trip also marked Monroe's first substantial victory in a hot battle it has been waging with other port cities on the lakes to attract business moving in or out of the seaway. The Renault shipment was part of a new program by Renault-Great Lakes, Inc., of Chicago to use the town as its receiving and processing facility for a nine-state territory.

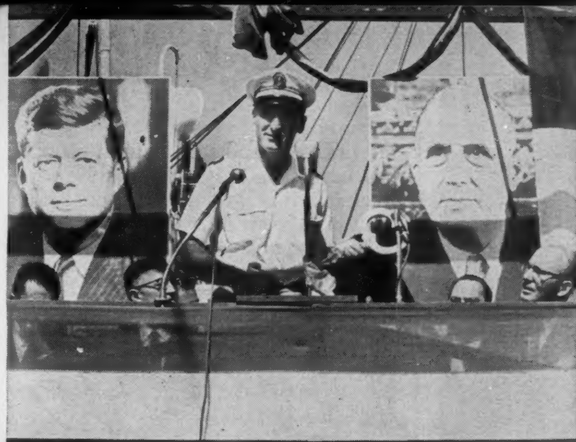
To honor the occasion, Monroe sponsored a gala program at its lone dock to greet the arrival of the Vire (pictures).

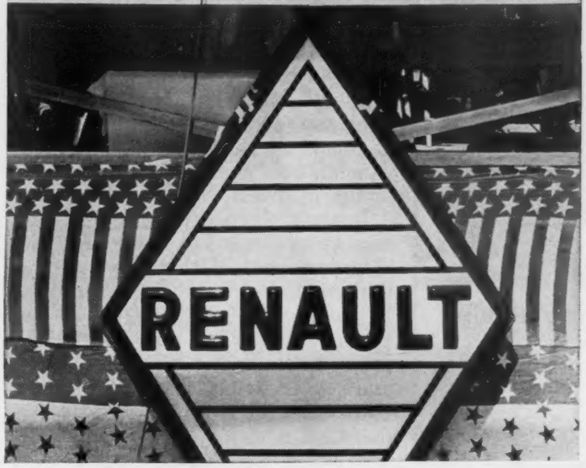
Background. Though Monroe is Michigan's only outlet on Lake Erie, it has had little attraction as a port—mainly because it is within 30 miles of the larger ports of Toledo and Detroit. In recent years, its meager tonnage (33,000 tons in 1960) has consisted solely of cement and coal for adjacent plants.

To build up the area, which has been running a 16.2% unemployment rate, Mayor Lawrence Frost launched a drive early this year to attract shippers to the port.

"Our theory," says Mayor Frost, "was that new shipping activities would not only increase tonnage moving through the port, but might also attract other industry."

Frost and the Port of Monroe's executive director, Sherwood L. Hamilton, began to spread the word about the port's assets: Located only two miles off Lake Erie's main ship-





Captain Jacques Thibaud of S.S. Vire thanks citizens of Monroe for cordial reception. Boat will carry Renault cars to port on regular schedule from Le Havre, France.

Thibaud tries maiden voyage on relaxing chair presented to him by Monroe manufacturer. The captain rocks contentedly as businessmen and civic officials look on.

Renault cars begin journey along dock toward processing facilities and eventual distribution in Midwest market area

ping channel, the Monroe harbor affords a straight run up the Raisin River channel to the dock. There are no bridges, and the 1,100-ft. dock can berth two ships. The only drawback is the 17.7-ft. depth at dockside and in the turning basin.

Meeting of the minds. While Monroe was beating its drums, Renault was studying the possibility of shipping cars into its Midwest market through the St. Lawrence Seaway. The plan was part of Renault's strategy to boost its lagging U. S. sales [BW Sep.2'61,p60].

Vincent Grob of Renault, Inc., of New York reports that the company's U. S. sales in August totaled 4,677—exceeding 1960's monthly sales for the first time this year. Grob says Renault is aiming at 15% of the U. S. import market in 1962, which would mean 10,000 cars sold in the Midwest.

Renault planned to process all its cars at its Great Lakes port facility, shipping most of them by sea and the remainder during winter months by truck or rail. When news of Renault's plans leaked out, most of the ports, including Chicago, Detroit, and Toledo, began flooding the company with offers. But little Monroe managed to come out on top.

Wooing technique. Other port officials are still somewhat baffled at how Monroe did the trick. Sherwood Hamilton, who camped on Renault's doorstep till it listened to his arguments, points to the port's natural assets, which included the unobstructed harbor and channel, a terminal building adequate for a processing line, and a total port acreage of 650 acres, half of which was available for further development.

As an added inducement, the Monroe Port Commission agreed to build a new 30,000-sq.-ft. storage shed and lease it and other facilities to Renault, and the city of Monroe promised to put in any needed utilities to the area. Renault itself was quick to note that the high-speed Detroit-Toledo expressway cuts right through the port property.

Economics. But the big factor in choosing Monroe, says Edwin P. McGettrick of Renault-Great Lakes, was simple economics. Because Monroe is at the eastern end of the Midwestern sales territory, it cuts shipping time over, say, Chicago by two days—an important saving to shipping lines with tight schedules. It also eliminates most backtracking by haulways when cars are sent out.

These factors—plus Monroe's facilities, room for expansion, and closeness to the center of the market—were responsible for Renault's choice, McGettrick says. **End**

Puerto Rico pushes home-owned industry

To take the wind out of the sails of nationalist arguments, and to assure more local industrial stability, the island government wants to build up local participation

In the 13 years since agrarian Puerto Rico began to offer incentives to stimulate its industrial development, 700 manufacturing plants have been established on the island. They have provided 50,000 jobs, created thousands of others in the service industries, and boosted total personal income from $600-million to more than $1.4-billion.

Despite these benefits, some Puerto Ricans have been miffed by one aspect of this industrialization: Four out of five of the plants are owned by U. S. mainland companies and individuals.

Under a new administrator, Rafael Durand (picture), the Economic Development Administration this year stepped up efforts to increase Puerto Rican ownership of its industry. It wants to encourage both Puerto Rican 100% ownership of plants and joint ventures in which Puerto Rican partners are taken by companies from the U. S. and abroad.

Need U. S. money, but . . . It isn't that EDA wants to discourage U. S. capital, for which, Durand concedes, "there is no alternative." Indeed, EDA has increased its mainland promotion of its lures—tax exemptions, government loans, etc.—during the past year by opening new offices in Boston, Philadelphia, and St. Louis.

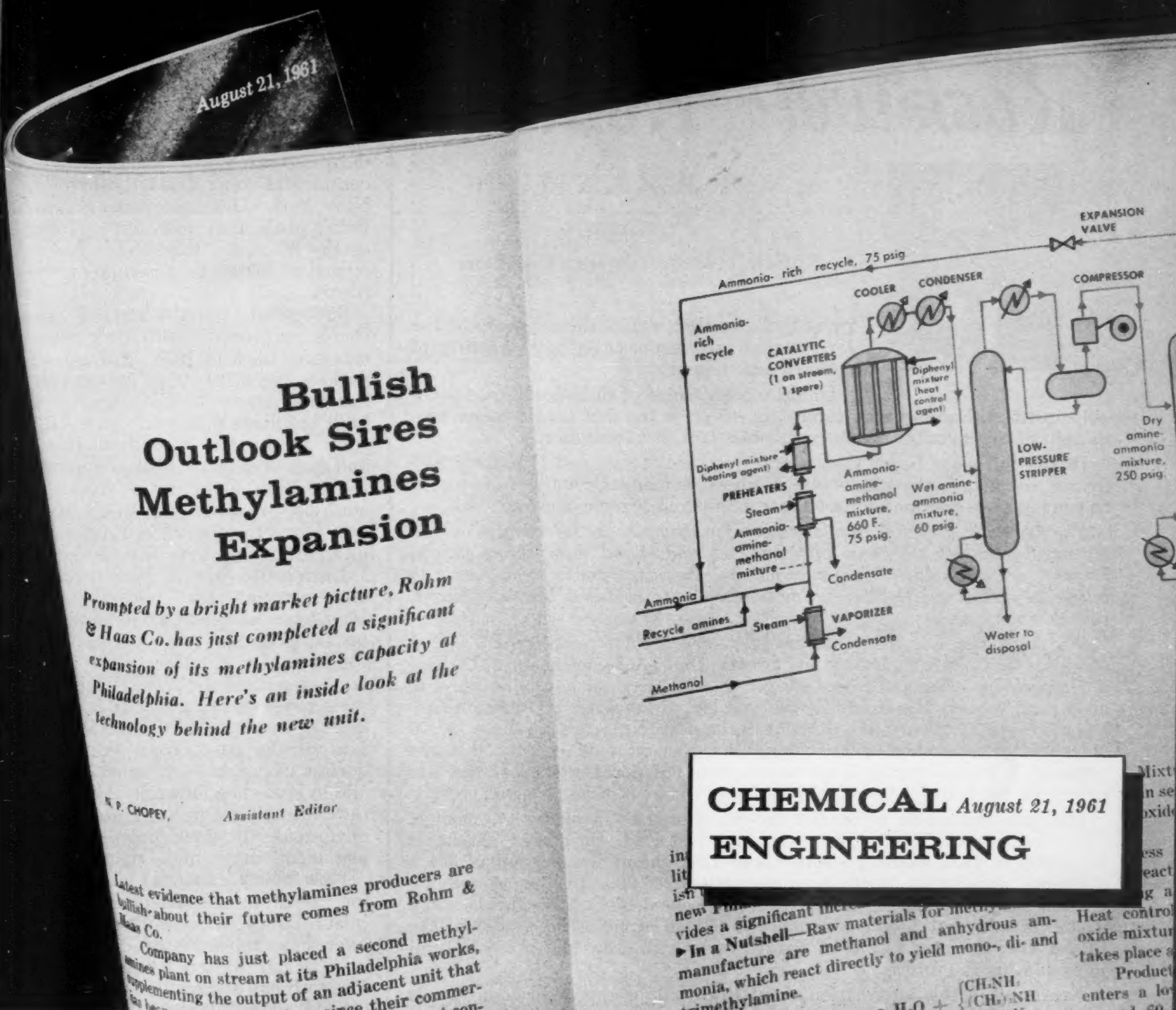
Rafael Durand, new administrator of Puerto Rico's Economic Development Administration, favors local share.

But the commonwealth's government feels obliged to nourish Puerto Rico's identification with its industry. It does so mainly, EDA officials say, for economic reasons: to protect the island against severe recessions by reducing its dependence on absentee-owned branch plants that are likely to be closed when business is bad, and to develop an entrepreneurial class in industry comparable to that already existing in other fields such as real estate development.

Politics, too. No matter how valid these aims may be, politics also plays a major role. Anti-Yankee agitators and independence fanatics on the island still are only few in number but the administration of Gov. Luis Munoz-Marin — which has stressed Puerto Rico's need to remain a commonwealth under the U. S. flag—wants to deprive them of an issue on which they might become stronger.

The government had a foretaste of this a few months ago when Ernesto Ramos Antonini, speaker of the island's House of Representatives, fought the opening of Grand Union supermarkets in Arecibo with attacks on "absentee capitalism" and warnings that Puerto Rico was losing its "economic liberty and autonomy." Because Ramos is both a leading member of the ruling Popular Democratic Party and an attorney for a group of small retailers in the community, outsiders were not quite sure whether Ramos was speaking for the government or for the retailers.

Combating extreme nationalists with a policy that could be interpreted as nationalistic is a tricky business—especially with U. S. business already jittery over nearby


August 21, 1961
Bullish Outlook Sires Methylamines Expansion
Prompted by a bright market picture, Rohm & Haas Co. has just completed a significant expansion of its methylamines capacity at Philadelphia. Here's an inside look at the technology behind the new unit.
Assistant Editor
Latest evidence that methylamines producers are bullish about their future comes from Rohm & Haas Co.
Company has just placed a second methylamines plant on stream at its Philadelphia works, supplementing the output of an adjacent unit that
EXPANSION VALVE
Ammonia- rich recycle, 75 psig
COOLER
CONDENSER
COMPRESSOR
Ammonia-rich recycle
CATALYTIC CONVERTERS (1 on stream, 1 spare)
Diphenyl mixture (heat control agent)
LOW-PRESSURE STRIPPER
Dry amine-ammonia mixture, 250 psig
Diphenyl mixture (heating agent)
PREHEATERS
Steam
Ammonia-amine-methanol mixture
Ammonia-amine-methanol mixture, 660 F. 75 psig.
Wet amine-ammonia mixture, 60 psig.
Condensate
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Steam
VAPORIZER
Condensate
Water to disposal
Methanol
CHEMICAL ENGINEERING August 21, 1961
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► In a Nutshell—Raw materials for
manufacture are methanol and anhydrous ammonia, which react directly to yield mono-, di- and trimethylamine.
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Cuba's nationalization of private property.

"We knew the dangers of this philosophy, irrespective of its advantages," says Jesus Diaz-Hernandez, executive director of EDA's continental operations branch in New York. Diaz compares Puerto Rico's goals more with those of any of the 50 states that prefer home-owned industry to absentee-owned plants.

Successful combination. Puerto Rico's partnership with U. S. interests goes back to 1948. Through its various agencies, the government has lent money to U. S. operators, built buildings that it has leased out such as the Caribe Hilton Hotel, and even occasionally taken a minority position in common stock. In addition, private Puerto Rican interests have, from time to time, gone into partnership with U. S. interests.

During this period, Puerto Rico's manufacturing and tourist industries have boomed, its dependence on farming was eased, and—with the help of emigration to the mainland—unemployment has been held in a range of 11% to 13% as an annual average. Without the new jobs of the past dozen years, the decline of employment on the farms and in home needle work, along with the continuing high birth rate, would have made the unemployment average insufferably high, officials say.

New policy. Now the government for the first time makes it an emphatic policy to boost Puerto Rican interest in its industry.

It began by encouraging 100% Puerto Rican ownership. New locally owned plants and expansions of older ones rose from 40 in fiscal 1960 to 70 in fiscal 1961. This was still considered slow progress, so the government last March announced its plan to promote joint ventures.

This scheme seeks to bring together Puerto Ricans who have capital but no idea of what to manufacture with it and U. S.—or foreign—manufacturers who have a product line and are willing to take on Puerto Rican partners. At the same time, the government hoped to find U. S. or foreign capital to back Puerto Ricans who know what to make and where to sell it but have insufficient funds of their own.

How it has worked. Before making the policy public, EDA tried out the principle. During fiscal 1960, it promoted four joint ventures. By March, it had promoted eight more and knew it would wind up fiscal 1961 with 18.

Among those promoted during the last fiscal year were a synthetic resin and latex emulsion plant in which

Reichhold Chemicals, Inc., and a Puerto Rican paint manufacturer named Adolfo Vilanova, Jr., would each have 50% interest; a caustic soda and chlorine plant in which a Bahamian subsidiary of Morton Salt Co. would have 75% and three Ponce businessmen would have 25%; and a paint plant in which 83% was to be held by W. P. Fuller & Co. of San Francisco and the rest by Geigel Trading Corp. of Santurce, Puerto Rico.

In bringing U. S. and Puerto Rican interests together, EDA has had to work on both parties. In the U. S., Diaz and his colleagues have asked potential industrialists whether they would object to taking on Puerto Rican partners. If they said they would, EDA continued to try to interest them in an independent island operation; if they said they would not, EDA tried to arrange "a proper marriage."

Pairing off. Finding a suitable partner in Puerto Rico has not been easy. EDA has succeeded in locating Puerto Rican industrialists with capital and with production or marketing knowhow to match with U. S. interests. It also has turned up Puerto Ricans who had made fortunes in sugar, rum, or land and who would be content to be inactive in management. But it hasn't found enough such people.

To get many more, Durand is drafting a master plan on where to concentrate EDA's efforts in Puerto Rico, which products lend themselves to joint-venture manufacture, and what additional assistance is required from the government.

In situations where the success of a joint venture is questionable or where no suitable Puerto Rican partner can be found for an agreeable U. S. mate, the government may achieve local participation by other means. For example, it may have its Puerto Rico Industrial Development Co. (Pridco) buy up a minority interest in the joint venture, let the U. S. company manage the operation, and later resell Pridco's interest to the Puerto Rican public.

This would be a step toward another government goal—to widen the general public's participation in Puerto Rican industry. Puerto Rican savings traditionally have been channeled more into tangible things such as land and buildings; industrial companies tended, anyway, to be closely held. Durand wants to encourage existing and new industries to let the general public buy some of their shares. Before long he hopes Puerto Rico can have an exchange on which such shares could be traded. **End.**

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No more retreats at the U.N.

The United Nations is meeting this week in New York under the most somber circumstances. The tragic death of Secy. Gen. Dag Hammarskjold not only has left the U.N. without an executive head at a time of desperate crisis in the Congo but also has confronted the world organization with the problem of his successor. Quite clearly, the very existence of the U.N. is at stake.

As might be expected, the Soviets are determined to take advantage of Hammarskjold's death to foist on the U.N. their "troika" proposal—a plan for a three-man executive. Foreign Minister Gromyko is coupling this demand, which would require an amendment to the Charter, with the admission of Communist China.

In this situation, Pres. Kennedy's planned appearance before the General Assembly takes on great significance. As originally anticipated, he can put before the U.N. his new plan for complete disarmament within the framework of world law. More important, he can pledge whole-hearted Western support for the U.N. as long as its integrity is not destroyed by the adoption of the troika.

It must be assumed that the President will stand absolutely firm on this issue, refusing any version of the proposed three-headed directorate.

There was considerable evidence this week that a number of Afro-Asian neutralists are ready to compromise with Moscow by supporting an interim solution that would put executive responsibility in the hands of the U.N.'s three political Under Secretaries: an American, a Russian, and an Indian. Since this would be the entering wedge, Washington should simply let the neutralist nations know that they face an "either, or" choice—either they back our stand or we will have to withdraw our support of the U.N. If the neutralist nations should ignore this warning and throw their votes in the Security Council behind a compromise, the U.S. should not hesitate to exercise its veto.

We would not be in such a predicament today, if, in the past, we had done less pussyfooting in dealing with the neutralists. We have been altogether too much concerned with currying their favor, rather than getting their respect.

We have been living for too long under illusions about the U.N., some of them antedating the recent influx of the new nations. First came the illusion that the Soviets would cooperate in the building of a peaceful world. Then there was the illusion of equality, that new and often tiny nations without even the qualification of nationhood should be on a par with the great powers.

As a result, the U.S. finds itself today both supporting and financing such a dubious enterprise as the U.N. attack on Katanga. There can be no doubt that the U.S., as well as the late Dag Hammarskjold, was trapped into this operation in an effort to appease the neutralist nations of Africa and Asia.

This is the time for the U.S. to reverse course in the U.N., not to succumb even further to the trend there. Otherwise, we will soon face the choice either of withdrawing from the U.N. or of remaining a member of a world organization whose interests will become increasingly irreconcilable with our own.

Stopping currency runs

The approval, in principle at least, that the major nations of the free world have given to the plan to strengthen the resources of the International Monetary Fund (page 30) represents an important step forward. It is a victory for Per Jacobsson, the managing director who fathered the plan, and for the U.S. delegation, which threw all its weight behind it. In effect, the major industrial nations will provide standby credits to the IMF that can be used as a buffer by a nation whose currency is under pressure while it gets its own house in order.

This is far from the radical revision of the IMF that has been advocated in some quarters. Nations suffering from chronic deficits in their balance of payments will still have to exercise corrective measures. But if the major countries do provide the essential credits, a nation under pressure will be able to avoid drastic deflationary measures that could stunt growth and produce unemployment.

As far as the U.S. is concerned, this was the essential point. Both the U.S. and Britain have been running deficits in their balance of payments that pose the threat of a speculative run on their key currencies, the dollar and the pound.

At the moment at least, the free world is not suffering from an absolute shortage of reserves that calls for a radical change in the international monetary mechanism. The problem is that the world's reserves are poorly distributed, so that the key currencies are in danger even if corrective domestic measures are taken. Jacobsson's plan is an attempt to improve the distribution. In accepting it, the surplus nations are moving responsibly to protect the financial structure of the free world.

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